

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

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Mentor-on-the-Lake, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 8, 2009

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Lake County, Ohio, as of and for the year ended December 31, 2008, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Ohio, as of December 31, 2008, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund and the following major special revenue funds: the Safety Forces Levy Fund, the Police Levy Fund, and the Fire Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2009, on our consideration of the City of Mentor-on-the-Lake, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mentor-on-the-Lake, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Mentor-on-the-Lake, Ohio. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


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

May 12, 2009

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008. 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 2008 are as follows:

- The total net assets of the City increased \$1,393,953.
- General revenues accounted for \$3,656,091 or 62.45 percent of total governmental activities revenue. Program specific revenues accounted for \$2,198,329 or 37.55% of total governmental activities revenue of \$5,854,420.
- The City had \$4,460,467 in expenses related to governmental activities; \$2,198,329 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,262,138 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,656,091.
- 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 \$2,596,018 in 2008. This represents an increase of \$141,422 from 2007 revenues and other financing sources. The expenditures of the General Fund, which totaled \$2,632,404 in 2008, increased \$102,313 from 2007. The net decrease in fund balance for the General Fund was \$36,386 or 6.95%.
- The Safety Forces Levy Fund had revenues of \$700,242 in 2008, which is an increase of \$5,435 from 2007 revenues. The expenditures in the Safety Forces Levy Fund totaled \$703,336 in 2008, which decreased \$541 from 2007. The net decrease in fund balance was \$3,094, resulting in an ending fund deficit of \$21,813.
- The Police Levy Fund had revenues of \$432,675, which is an increase of \$11,903 from 2007 revenues. The expenditures totaled \$414,099 in 2008, which increased \$87,852 from 2007 expenditures. The net increase in fund balance was \$18,576, resulting in an ending fund balance of \$49,576.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

- The Fire Levy Fund had revenues of \$343,148 in 2008, which is an increase of \$4,659 from 2007 revenues. The expenditures totaled \$347,717 in 2008, which increased \$21,470 from 2007 expenditures. The net decrease in fund balance was \$4,569, resulting in an ending fund balance of \$2,391.
- The Andrews Road Construction Fund had revenues and other financing sources of \$2,918,125 in 2008, which is an increase of \$2,090,400 from 2007 revenues and other financing sources. The expenditures totaled \$1,717,911 in 2008, which is an increase of \$955,806 from 2007 expenditures. The net increase in fund balance was \$1,200,214, resulting in an ending fund balance of \$564,531.
- In the General Fund, the actual revenues and other financing sources were \$15,428 higher than they were in the final budget and actual expenditures and other financing uses were \$199,133 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. The final budget revenues and other financing sources were \$223,100 higher than they were in the original budget and final budget expenditures and other financing uses had minor changes from the original budget.

The Basic Financial Statements

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

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

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" 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, 2008
(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, special assessments, and intergovernmental revenues including Federal and State grants and other shared revenues.

The City's statement of net assets and statement of activities can be found on pages 19-21 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, the Fire Levy Fund, and the Andrews Road Construction Fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary is an agency funds. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33-65 of this report.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Government-wide Financial Analysis

The table below provides a summary of the City's net assets for 2008 and 2007.

	Net Assets	
	2008	2007
ASSETS		
Current and other assets	\$ 5,286,945	\$ 3,983,141
Capital assets, net	6,579,798	4,557,839
Total Assets	11,866,743	8,540,980
LIABILITIES		
Current liabilities	3,425,272	3,161,388
Long-term liabilities	2,494,411	826,485
Total Liabilities	5,919,683	3,987,873
NET ASSETS		
Invested in capital assets, net of related debt	3,314,320	3,150,753
Restricted	1,764,066	378,305
Unrestricted	868,674	1,024,049
Total Net Assets	\$ 5,947,060	\$ 4,553,107

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2008, the City's assets exceeded liabilities by \$5,947,060. At year-end, unrestricted net assets were \$868,674.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 55.45 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, 2008, were \$3,314,320 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, \$1,764,066, 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 \$868,674.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The table below shows the changes in net assets for fiscal year 2008 and 2007.

	Changed in Net Assets	
	<u>2008</u>	<u>2007</u>
REVENUES		
Program Revenues:		
Charges for services	\$ 489,847	\$ 641,535
Operating grants and contributions	344,862	312,999
Capital grants and contributions	1,363,620	647,681
Total Program Revenues	<u>2,198,329</u>	<u>1,602,215</u>
General Revenues:		
Property taxes	1,722,736	1,737,472
Income taxes	925,689	781,779
Unrestricted grants and entitlements	948,881	865,788
Investment income	30,573	48,693
All other revenues	28,212	56,152
Total General Revenues	<u>3,656,091</u>	<u>3,489,884</u>
Total Revenues	<u>5,854,420</u>	<u>5,092,099</u>
EXPENSES		
Program Expenses:		
General government	672,327	629,162
Security of persons and property	2,605,347	2,388,315
Public health and welfare	64,865	65,819
Transportation	738,865	605,399
Leisure time activities	44,586	54,358
Refuse services	299,560	285,393
Other	2,960	2,318
Interest and fiscal charges	31,957	40,060
Total Expenses	<u>4,460,467</u>	<u>4,070,824</u>
Change in Net Assets	1,393,953	1,021,275
Net Assets - Beginning of Year	4,553,107	3,531,832
Net Assets - End of Year	<u>\$ 5,947,060</u>	<u>\$ 4,553,107</u>

Governmental Activities

Governmental activities net assets increased \$1,393,953 in 2008. This increase is primarily due to increased capital grants and contributions for 2008 versus 2007 coupled with 2008 expenses remaining consistent with 2007.

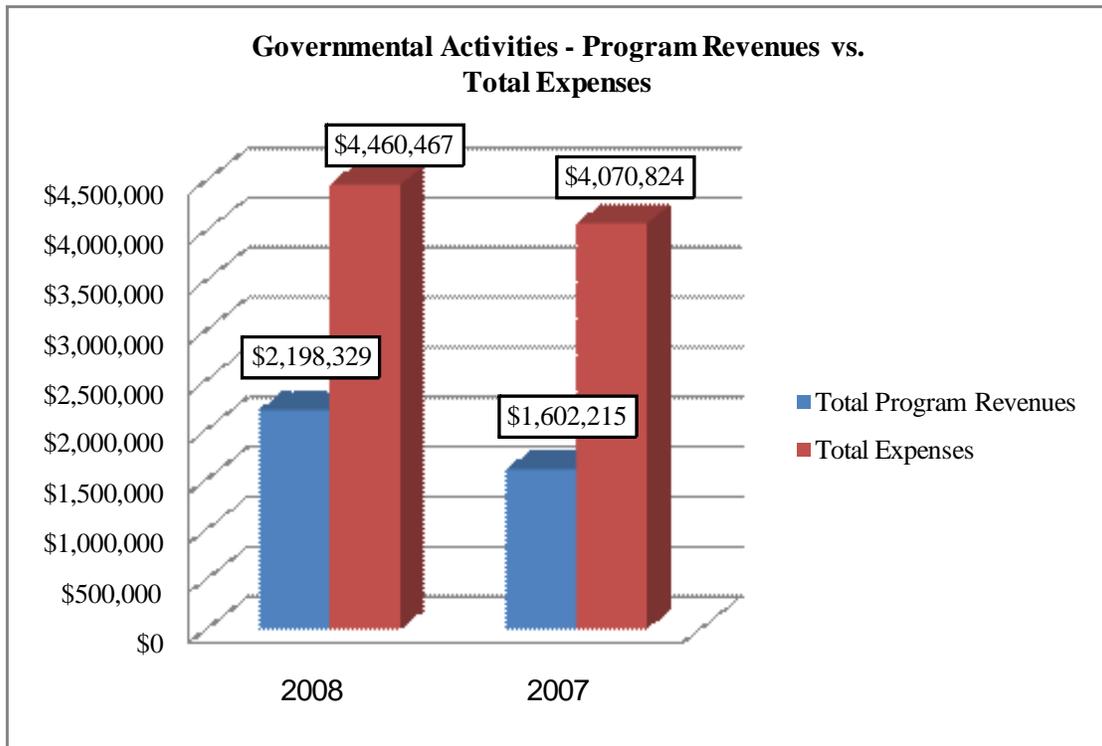
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,605,347, which accounted for 58.41 percent of the total expenses of the City. These expenses were partially funded by \$180,180 in direct charges to users of the services, \$17,163 in operating grants and contributions, and \$165,154 in capital grants and contributions. General government expenses totaled \$672,327, which was partially funded by \$28,054 in direct charges to users of the services, and \$5,177 in operating grants and contributions.

**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 \$344,862 in operating grants and contributions, and \$1,363,620 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received, \$1,198,466 subsidized transportation programs.

General revenues totaled \$3,656,091 and amounted to 62.45 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,648,425. 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 \$948,881.

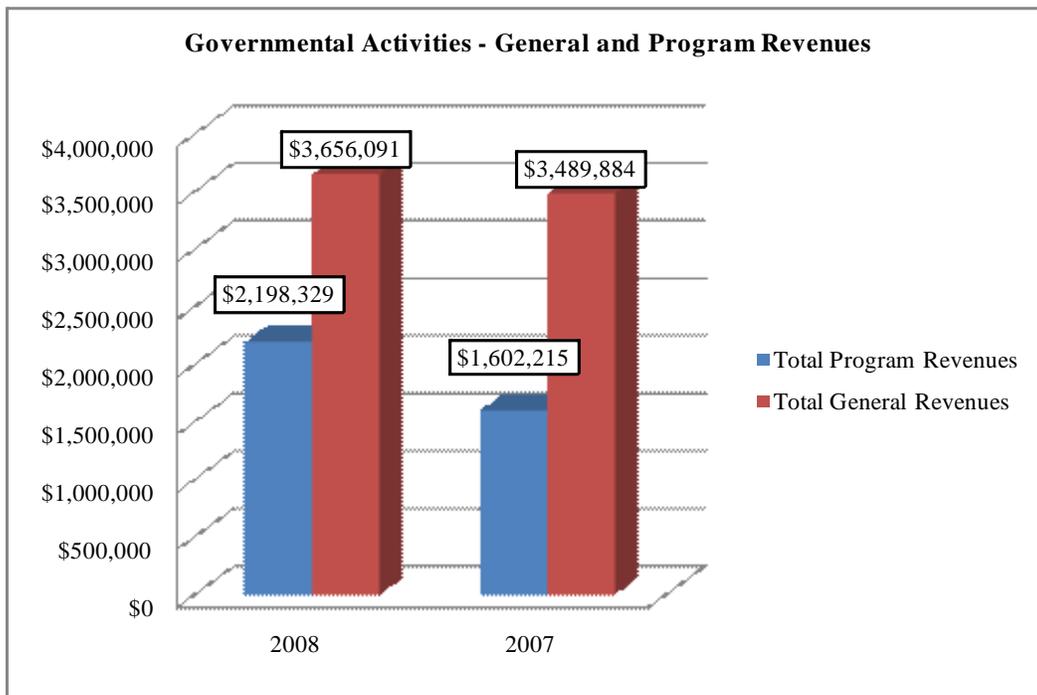
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported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

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2008	2008	2007	2007
General government	\$ 672,327	\$ (639,096)	\$ 629,162	\$ (451,291)
Security of persons and property	2,605,347	(2,242,850)	2,388,315	(2,224,299)
Public health and welfare	64,865	(64,865)	65,819	(44,945)
Transportation	738,865	784,256	605,399	339,296
Leisure time activities	44,586	(41,846)	54,358	(52,838)
Refuse services	299,560	(22,820)	285,393	7,846
Other	2,960	(2,960)	2,318	(2,318)
Interest and fiscal charges	31,957	(31,957)	40,060	(40,060)
Total cost of service	\$ 4,460,467	\$ (2,262,138)	\$4,070,824	\$(2,468,609)

The dependence upon general revenues for governmental activities is apparent, with 50.72 percent of expenses supported through taxes and other general revenues.



Financial Analysis of the Government's Funds

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 22-23) reported a combined fund balance of \$1,041,084, which is \$1,011,880 greater than last year's fund balance total of \$29,204. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2008 for all major and nonmajor governmental funds.

	Fund Balances/ (Deficits) 12/31/2008	Fund Balances/ (Deficits) 12/31/2007	Increase (Decrease)
Major funds:			
General	\$ 487,274	\$ 523,660	\$ (36,386)
Safety forces levy	(21,813)	(18,719)	(3,094)
Police levy	49,576	31,000	18,576
Fire levy	2,391	6,960	(4,569)
Andrews Road construction	564,531	(635,683)	1,200,214
Other nonmajor governmental funds	(40,875)	121,986	(162,861)
Total	<u>\$ 1,041,084</u>	<u>\$ 29,204</u>	<u>\$ 1,011,880</u>

General Fund

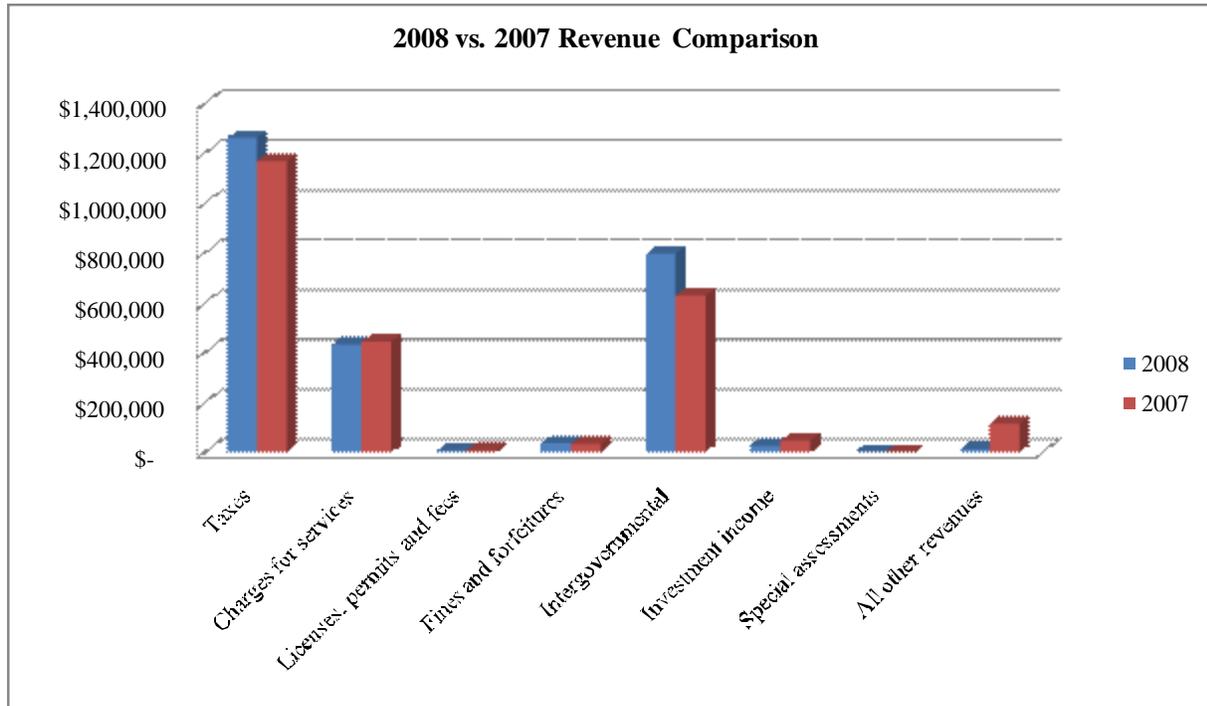
The City's General Fund balance decreased \$36,386, primarily due to an increase in expenditures. The table that follows assists in illustrating the revenues of the General Fund.

	2008 Amount	2007 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$ 1,262,611	\$ 1,169,362	7.97%
Charges for services	434,393	445,858	-2.57%
Licenses, permits and fees	7,750	9,353	-17.14%
Fines and forfeitures	37,966	34,642	9.60%
Intergovernmental	798,453	629,961	26.75%
Investment income	27,151	48,693	-44.24%
Special assessments	1,961	-	100.00%
All other revenues	15,094	116,727	-87.07%
Total	<u>\$ 2,585,379</u>	<u>\$ 2,454,596</u>	<u>5.33%</u>

Tax revenue represents 48.84 percent of all General Fund revenue. Income and property tax revenues increased during 2008. Intergovernmental revenue increased primarily due to an increase in grants and estate taxes. All other revenue remained comparable to 2007.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The following graphs show the breakdown of General Fund revenues for 2008 and 2007:



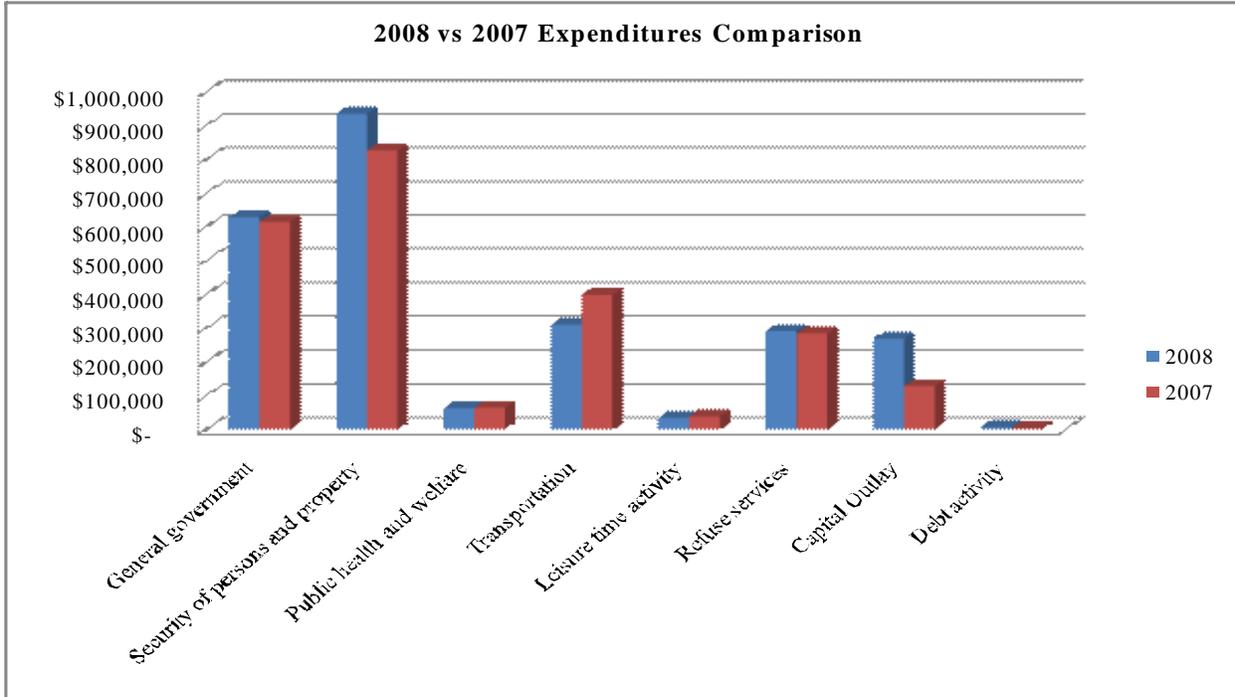
The table that follows assists in illustrating the expenditures of the General Fund.

	2008 Amount	2007 Amount	Percentage Change
<u>Expenditures</u>			
General government	\$ 629,591	\$ 615,481	2.29%
Security of persons and property	935,222	827,233	13.05%
Public health and welfare	64,865	65,429	-0.86%
Transportation	310,770	399,295	-22.17%
Leisure time activities	34,833	39,513	-11.84%
Refuse services	291,947	285,393	2.30%
Capital Outlay	269,543	129,069	108.84%
Debt activity	7,313	4,678	56.33%
Total	<u>\$ 2,544,084</u>	<u>\$ 2,366,091</u>	<u>7.52%</u>

The most significant increase was in the area of capital outlay. This increase is primarily due to the City's purchase of miscellaneous equipment during 2008. Security of persons and property expenditures increased in the General Fund due to an increase in wages and benefits during 2008. All other expenditures remained comparable to 2007.

**CITY OF MENTOR-ON-THE-LAKE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

The following graphs show the breakdown of General Fund expenditures for 2008 and 2007:



Safety Forces Levy Fund

The fund balance of the City's Safety Forces Levy Fund decreased \$3,094, primarily due to revenues and expenditures remaining relatively consistent. Revenues increased from \$694,807 in 2007 to \$700,242 in 2008. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures decreased from \$703,877 in 2007 to \$703,336 in 2008.

Police Levy Fund

The fund balance of the City's Police Levy Fund increased \$18,576, primarily due to increased revenues. Revenues increased from \$420,772 in 2007 to \$432,675 in 2008. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased from \$375,133 in 2007 to \$414,099 in 2008.

Fire Levy Fund

The fund balance of the City's Fire Levy Fund decreased \$4,569 primarily due to increased expenditures. Revenues increased from \$338,489 in 2007 to \$343,148 in 2008. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased from \$326,247 in 2007 to \$347,717 in 2008.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Andrews Road Construction Fund

The City's Andrews Road Construction Fund's fund deficit increased to a fund balance of \$564,531 in 2008. The Fund had increased construction expenditures, intergovernmental revenues, and loan proceeds in 2008 versus 2007. Revenues and other financing sources increased \$2,090,400 from 2007 due to two State Infrastructure Bank (SIB) loans received in 2008, along with the recognition of an intergovernmental receivable from Northeast Ohio Areawide Coordinating Agency (NOACA) that will be reduced over the life of one of the SIB loans. Expenditures increased from \$762,105 in 2007 to \$1,717,911 in 2008 as construction continued on the project.

Budgeting Highlights

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

Budgetary information is presented for the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, and Fire Levy Fund. In the General Fund, actual revenues and other financing sources of \$2,842,718 were more than final budgeted revenues and other financing sources by \$15,428. Actual expenditures and other financing uses of \$2,646,980 were \$199,133 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, 2008
(Continued)**

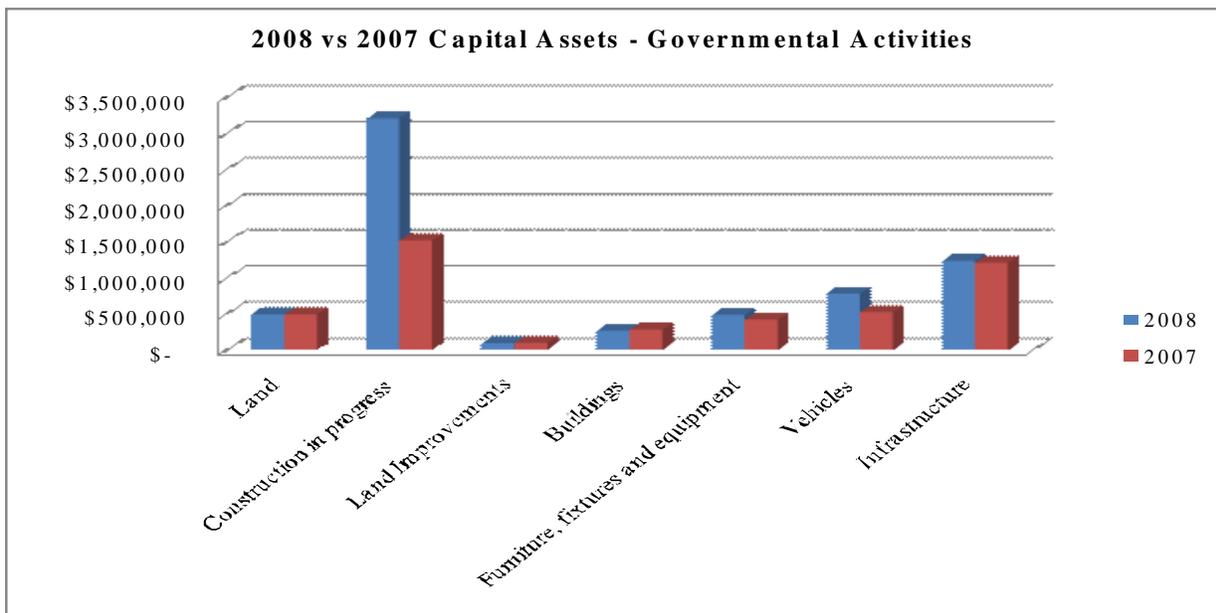
Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the City had \$6,579,798 (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 2008 balances compared to 2007:

	Capital Assets at December 31, (Net of Depreciation)	
	Governmental Activities	
	2008	2007
Land	\$ 495,279	\$ 495,279
Construction in progress	3,209,620	1,519,083
Land Improvements	94,497	100,728
Buildings	268,352	283,370
Furniture, fixtures and equipment	489,315	421,211
Vehicles	783,328	527,412
Infrastructure	1,239,407	1,210,756
Total Capital Assets	\$ 6,579,798	\$ 4,557,839

The following graphs show the breakdown of governmental capital assets by category for 2008 and 2007.



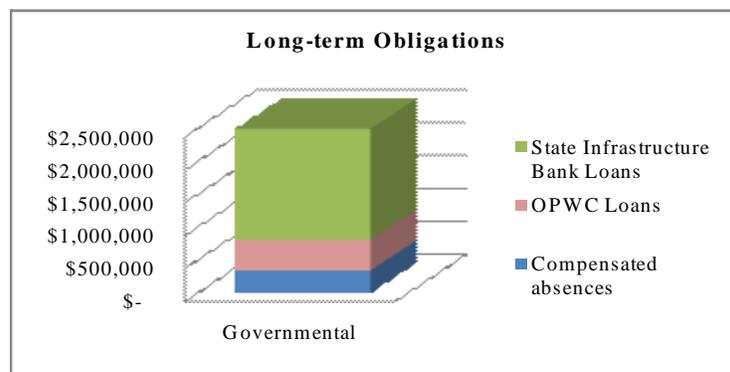
**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2008 and 2007. See Note 11 for details regarding the City's long-term liabilities.

	2008	2007
Compensated absences	\$ 343,933	\$ 319,399
Capital leases	-	4,612
OPWC Loans	462,774	502,474
State Infrastructure Bank Loans	1,687,704	-
Total outstanding debt	\$ 2,494,411	\$ 826,485

A comparison of the long-term obligations of 2008 by category is depicted in the chart below.



Economic Conditions and Outlook

The City of Mentor-on-the-Lake is a bedroom community with only 18 percent of the tax base being retail and commercial. The City is 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 completed the SR 283 Reconstruction Project (Andrews Rd. and Lakeshore Blvd.) in fiscal year 2008. The Ohio Department of Department of Transportation (ODOT) managed the \$8 million project, which included installation of storm sewer and the addition of a turn lane in the City's business district. Even though the construction phase is complete, final costs have not yet been finalized by ODOT. The Andrews Road portion is concrete with curbs and gutters and the turning lane in the business district has helped greatly with the retail traffic.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The end of fiscal year 2008 saw the national and state economy make a sharp decline as a result of the subprime housing mortgage crisis. The City's business economy has not been affected too much since most all of our businesses are of the "staple" type retail establishments. However, as a number of employers in the Lake County and Cleveland area have announced personnel layoffs, the downturn in the economy will affect employment of our residents. The City's main source of revenues comes from real estate taxes, income taxes, and state shared revenues. As for real estate taxes, calendar year 2009 is a reappraisal year for the County Auditor and preliminary estimates are that real estate values will be reduced by an average of two to three percent. Income taxes are expected to stay stable for fiscal year 2009. The City's largest income tax revenue sources come from Lake Elementary School and the City of Mentor-on-the-Lake, which are governmental agencies, and the local grocery store, Giant Eagle, which is anticipated to remain an on-going operation. The state shared revenues on the other hand are a bit of a concern.

The City receives Local Government Funds from the State of Ohio which used to be under a formula of 4.2 percent of four state revenue sources, which included the State's income taxes and sales taxes. The State of Ohio changed the funding formula in starting in fiscal year 2008 to 3.68 percent of all general revenues collected by the State. Therefore, the Local Government Funds the City receives (approximately 18 percent of the City's General Fund) will increase or decrease as does the State's revenues. With the downturn in the economy, the City's revenues from this source are being reduced by approximately 9 percent. Also, the City shares in automobile license plate fees and gasoline taxes. The City experienced a small reduction in these shared revenues in fiscal year 2008. Whether the state shared revenues will continue to decrease will depend upon the success of the Federal Stimulus Package that was recently implemented.

Fiscal year 2010 will continue to be budgeted on a very conservative basis and a very 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 citizens, 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
DECEMBER 31, 2008**

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 1,235,408
Accounts Receivable	74,493
Intergovernmental Receivable	1,763,958
Prepaid Items	15,047
Income Taxes Receivable	218,117
Property Taxes Receivable	1,977,961
Special Assessments Receivable	1,961
Nondepreciable Capital Assets	3,704,899
Depreciable Capital Assets	2,874,899
Total Assets	11,866,743
LIABILITIES	
Accounts Payable	93,100
Accrued Wages and Benefits	95,827
Intergovernmental Payable	53,442
Pension Obligation	63,015
Accrued Interest Payable	13,241
Unearned Revenue	1,991,647
Notes Payable	1,115,000
Long-term Liabilities:	
Due within one year	169,049
Due in more than one year	2,325,362
Total Liabilities	5,919,683
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,314,320
Restricted for:	
Debt Services	38,883
Capital Projects	1,281,557
Street Construction, Maintenance and Repair	153,800
Fire and Safety Services	205,475
Other Purposes	84,351
Unrestricted	868,674
Total Net Assets	\$ 5,947,060

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, 2008**

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 2,605,347	\$ 180,180	\$ 17,163	\$ 165,154
Public Health Services	64,865	-	-	-
Leisure Time Activities	44,586	2,740	-	-
Refuse Services	299,560	276,740	-	-
Transportation	738,865	2,133	322,522	1,198,466
General Government	672,327	28,054	5,177	-
Other	2,960	-	-	-
Interest and Fiscal Charges	31,957	-	-	-
Total Governmental activities	<u>\$ 4,460,467</u>	<u>\$ 489,847</u>	<u>\$ 344,862</u>	<u>\$ 1,363,620</u>

General Revenues:

Property and Other Local Taxes levied for:

General Purposes

Debt Service Purpose

Other Purposes

Income Taxes levied for:

General Purposes

Grants & Entitlements not restricted to specific programs

Investment Income

All Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)**

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	
\$	(2,242,850)
	(64,865)
	(41,846)
	(22,820)
	784,256
	(639,096)
	(2,960)
	(31,957)
	(2,262,138)
	371,345
	611
	1,350,780
	925,689
	948,881
	30,573
	28,212
	3,656,091
	1,393,953
	4,553,107
\$	5,947,060

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General	Safety Forces Levy	Police Levy
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 761,063	\$ 28,293	\$ 53,647
Accounts Receivable	74,279	-	214
Intergovernmental Receivable	316,237	43,577	22,262
Prepaid Items	11,610	-	2,821
Income Taxes Receivable	218,117	-	-
Property Taxes Receivable	432,076	720,429	432,459
Special Assessments Receivable	1,961	-	-
Total Assets	\$ 1,815,343	\$ 792,299	\$ 511,403
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	86,924	-	801
Accrued Wages	28,429	50,106	4,901
Intergovernmental Payable	35,796	-	-
Pension Obligation Payable	41,381	-	1,404
Accrued Interest Payable	2,672	-	-
Deferred Revenue	510,333	84,481	46,170
Notes Payable	215,000	-	-
Unearned Revenue	407,534	679,525	408,551
Total Liabilities	1,328,069	814,112	461,827
Fund Balances:			
Reserved for:			
Encumbrances	19,165	-	1,034
Prepaid Items	11,610	-	2,821
Loans Receivable	-	-	-
Debt Service	-	-	-
Unreserved:			
Undesignated, Reported in:			
General Fund	456,499	-	-
Special Revenue Funds	-	(21,813)	45,721
Capital Projects Funds	-	-	-
Total Fund Balance	487,274	(21,813)	49,576
Total Liabilities and Fund Balance	\$ 1,815,343	\$ 792,299	\$ 511,403

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, 2008
(CONTINUED)**

<u>Fire Levy</u>	<u>Andrews Road Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 38,355	\$ 145,090	\$ 208,960	\$ 1,235,408
-	-	-	74,493
17,720	1,198,466	165,696	1,763,958
589	-	27	15,047
-	-	-	218,117
344,175	-	48,822	1,977,961
-	-	-	1,961
<u>\$ 400,839</u>	<u>\$ 1,343,556</u>	<u>\$ 423,505</u>	<u>\$ 5,286,945</u>
4,195	-	1,180	93,100
3,934	-	8,457	95,827
11,324	-	6,322	53,442
17,100	-	3,130	63,015
-	9,025	1,544	13,241
36,738	-	142,867	820,589
-	770,000	130,000	1,115,000
325,157	-	170,880	1,991,647
<u>398,448</u>	<u>779,025</u>	<u>464,380</u>	<u>4,245,861</u>
7,928	2,947	-	31,074
589	-	27	15,047
-	1,198,466	-	1,198,466
-	-	38,883	38,883
-	-	-	456,499
(6,126)	-	103,189	120,971
-	(636,882)	(182,974)	(819,856)
2,391	564,531	(40,875)	1,041,084
<u>\$ 400,839</u>	<u>\$ 1,343,556</u>	<u>\$ 423,505</u>	<u>\$ 5,286,945</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Total Governmental Funds Balance	\$	1,041,084
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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.		6,579,798
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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 taxes	111,713	
Income taxes	156,091	
Charges for services	61,302	
Intergovernmental revenues	491,483	
Total		820,589

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	(462,774)	
Compensated absences	(343,933)	
SIB Loans	(1,687,704)	
Total		(2,494,411)

Net Assets of Governmental Activities	\$	5,947,060
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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, 2008

	<u>General Fund</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>
REVENUES			
Property Taxes	\$ 366,866	\$ 612,071	\$ 385,372
Income Taxes	895,745	-	-
Intergovernmental	798,453	87,153	44,524
Interest	27,151	458	1,322
Licenses and Permits	7,750	-	-
Fines and Forfeitures	37,966	-	-
Charges for Services	434,393	-	-
Special Assessments	1,961	-	-
All Other Revenues	15,094	560	1,457
Total Revenues	<u>2,585,379</u>	<u>700,242</u>	<u>432,675</u>
EXPENDITURES			
Security of Persons and Property:	935,222	703,336	414,099
Public Health	64,865	-	-
Leisure Time Activities	34,833	-	-
Refuse Services	291,947	-	-
Transportation	310,770	-	-
General Government	629,591	-	-
Capital Outlay	269,543	-	-
Debt Service:			
Principal Retirement	4,612	-	-
Interest and Fiscal Charges	2,701	-	-
Other	-	-	-
Total Expenditures	<u>2,544,084</u>	<u>703,336</u>	<u>414,099</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>41,295</u>	<u>(3,094)</u>	<u>18,576</u>
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	2,188	-	-
SIB Loans Issued	-	-	-
Transfers In	8,451	-	-
Transfers Out	(88,320)	-	-
Total Other Financing Sources (Uses)	<u>(77,681)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(36,386)	(3,094)	18,576
Fund Balances - Beginning of Year	523,660	(18,719)	31,000
Fund Balances - End of Year	<u>\$ 487,274</u>	<u>\$ (21,813)</u>	<u>\$ 49,576</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 – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)**

Fire Levy	Andrews Road Construction	Other Governmental Funds	Total Governmental Funds
\$ 306,454	\$ -	\$ 41,381	\$ 1,712,144
-	-	-	895,745
35,439	1,198,466	510,107	2,674,142
1,255	-	387	30,573
-	-	-	7,750
-	-	1,295	39,261
-	-	5,907	440,300
-	-	-	1,961
-	-	7,391	24,502
<u>343,148</u>	<u>1,198,466</u>	<u>566,468</u>	<u>5,826,378</u>
346,695	-	48,013	2,447,365
-	-	-	64,865
-	-	7,549	42,382
-	-	-	291,947
-	-	346,232	657,002
-	-	-	629,591
1,022	1,692,909	324,287	2,287,761
-	-	39,700	44,312
-	25,002	4,241	31,944
-	-	7,221	7,221
<u>347,717</u>	<u>1,717,911</u>	<u>777,243</u>	<u>6,504,390</u>
<u>(4,569)</u>	<u>(519,445)</u>	<u>(210,775)</u>	<u>(678,012)</u>
-	-	-	2,188
-	1,687,704	-	1,687,704
-	31,955	63,233	103,639
-	-	(15,319)	(103,639)
<u>-</u>	<u>1,719,659</u>	<u>47,914</u>	<u>1,689,892</u>
<u>(4,569)</u>	<u>1,200,214</u>	<u>(162,861)</u>	<u>1,011,880</u>
6,960	(635,683)	121,986	29,204
<u>\$ 2,391</u>	<u>\$ 564,531</u>	<u>\$ (40,875)</u>	<u>\$ 1,041,084</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, 2008**

Net Change in Fund Balances--Total Governmental Funds \$ 1,011,880

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

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

Capital Outlay	2,323,699	
Depreciation	(216,693)	
Total		2,107,006

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. (85,047)

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

Property taxes	10,593	
Income taxes	29,944	
Charges for services	(14,246)	
Special assessments	(6,257)	
Intergovernmental revenues	8,006	
Total		28,040

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of State Infrastructure Bank (SIB) loans. (1,687,704)

Repayment of OPWC loans and capital lease principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 44,312

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	(24,534)	
Total		(24,534)

Change in Net Assets of Governmental Activities \$ 1,393,953

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, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES:				
Property Taxes	\$ 377,520	\$ 366,520	\$ 366,865	\$ 345
Income Taxes	770,000	870,000	898,229	28,229
Intergovernmental Revenues	651,400	782,400	771,618	(10,782)
Interest	40,000	28,000	27,151	(849)
Licenses and Permits	9,570	8,170	8,050	(120)
Fines and Forfeitures	40,000	40,000	37,626	(2,374)
Charges for Services	438,400	435,900	434,575	(1,325)
All Other Revenues	50,200	63,200	64,010	810
Total Revenues	<u>2,377,090</u>	<u>2,594,190</u>	<u>2,608,124</u>	<u>13,934</u>
EXPENDITURES:				
Current:				
Security of Persons & Property	945,527	943,527	931,632	11,895
Public Health	63,000	65,000	64,865	135
Leisure Time Activities	43,200	43,200	35,891	7,309
Refuse Services	291,220	291,200	290,198	1,002
Transportation	375,679	375,679	318,749	56,930
General Government	670,171	670,171	618,994	51,177
Capital Outlay	340,516	340,516	274,868	65,648
Total Expenditures	<u>2,729,313</u>	<u>2,729,293</u>	<u>2,535,197</u>	<u>194,096</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(352,223)</u>	<u>(135,103)</u>	<u>72,927</u>	<u>208,030</u>
OTHER FINANCES SOURCES (USES)				
Proceeds of Notes	225,000	215,000	215,000	-
Transfers - Out	(88,320)	(88,320)	(88,320)	-
Other Financing Sources	2,100	18,100	19,594	1,494
Other Financing Uses	(28,500)	(28,500)	(23,463)	5,037
Total Other Financing Sources (Uses)	<u>110,280</u>	<u>116,280</u>	<u>122,811</u>	<u>6,531</u>
Net Change in Fund Balance	(241,943)	(18,823)	195,738	214,561
Fund Balance, Beginning of Year	441,478	441,478	441,478	-
Prior Year Encumbrances Appropriated	57,262	57,262	57,262	-
Fund Balance, End of Year	<u>\$ 256,797</u>	<u>\$ 479,917</u>	<u>\$ 694,478</u>	<u>\$ 214,561</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, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property Taxes	\$ 596,180	\$ 611,680	\$ 612,071	\$ 391
Intergovernmental	80,000	87,100	87,153	53
Interest	2,000	500	458	(42)
Total Revenues	678,180	699,280	699,682	402
EXPENDITURES:				
Current:				
Security of Persons & Property	695,000	695,000	689,568	5,432
Total Expenditures	695,000	695,000	689,568	5,432
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,820)	4,280	10,114	5,834
OTHER FINANCES SOURCES (USES)				
Other Financing Sources	241	791	560	(231)
Other Financing Uses	(8,000)	(8,000)	(7,313)	687
Total Other Financing Sources (Uses)	(7,759)	(7,209)	(6,753)	456
Net change in Fund Balance	(24,579)	(2,929)	3,361	6,290
Fund Balance, Beginning of Year	24,932	24,932	24,932	-
Fund Balance, End of Year	\$ 353	\$ 22,003	\$ 28,293	\$ 6,290

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, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property Taxes	\$ 364,080	\$ 384,380	\$ 385,372	\$ 992
Intergovernmental	47,000	44,600	44,524	(76)
Investment Earnings	1,000	1,000	1,322	322
Total Revenues	<u>412,080</u>	<u>429,980</u>	<u>431,218</u>	<u>1,238</u>
EXPENDITURES:				
Current:				
Security of Persons & Property	438,838	438,838	407,244	31,594
Total Expenditures	<u>438,838</u>	<u>438,838</u>	<u>407,244</u>	<u>31,594</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(26,758)</u>	<u>(8,858)</u>	<u>23,974</u>	<u>32,832</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Sources	-	550	1,243	693
Other Financing Uses	(6,300)	(6,300)	(5,991)	309
Total Other Financing Sources (Uses)	<u>(6,300)</u>	<u>(5,750)</u>	<u>(4,748)</u>	<u>1,002</u>
Net change in Fund Balance	(33,058)	(14,608)	19,226	33,834
Fund Balance, Beginning of Year	33,149	33,149	33,149	-
Prior Year Encumbrances Appropriated	138	138	138	-
Fund Balance, End of Year	<u>\$ 229</u>	<u>\$ 18,679</u>	<u>\$ 52,513</u>	<u>\$ 33,834</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, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Property Taxes	\$ 286,960	\$ 305,760	\$ 306,454	\$ 694
Intergovernmental Revenues	40,000	35,500	35,439	(61)
Interest	2,000	1,500	1,255	(245)
Total Revenues	<u>328,960</u>	<u>342,760</u>	<u>343,148</u>	<u>388</u>
EXPENDITURES:				
Current:				
Security of Persons & Property	362,006	362,006	350,843	11,163
Total Expenditures	<u>362,006</u>	<u>362,006</u>	<u>350,843</u>	<u>11,163</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(33,046)</u>	<u>(19,246)</u>	<u>(7,695)</u>	<u>11,551</u>
OTHER FINANCING SOURCES (USES)				
Other Financing Uses	(5,200)	(5,200)	(5,014)	186
Total Other Financing Sources (Uses)	<u>(5,200)</u>	<u>(5,200)</u>	<u>(5,014)</u>	<u>186</u>
Net change in Fund Balance	(38,246)	(24,446)	(12,709)	11,737
Fund Balance, Beginning of Year	31,650	31,650	31,650	-
Prior Year Encumbrances Appropriated	7,206	7,206	7,206	-
Fund Balance, End of Year	<u>\$ 610</u>	<u>\$ 14,410</u>	<u>\$ 26,147</u>	<u>\$ 11,737</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, 2008**

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 94,699
Cash and Cash Equivalents:	
in Segregated Accounts	12,977
Total Assets	\$ 107,676
Liabilities	
Deposits Held and Due to Others	12,977
Undistributed Monies	94,699
Total Liabilities	\$ 107,676

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, 2008**

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, 2008
(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, 2008
(Continued)

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

C. Fund Accounting

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

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

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

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

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

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

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(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, 2008
(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, 2008, but which were levied to finance year 2009 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, 2008, 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, 2008
(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 2008.

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, 2008
(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 segregated bank accounts for monies held separate from the City's central bank accounts. These accounts are presented on the Statement of Fiduciary Net Assets as "Cash and Cash Equivalents In Segregated Accounts" since they are not required to be deposited into the City's treasury.

During 2008, investments were limited to State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shares price, which is the price the investment could be sold for on December 31, 2008.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the General Fund during 2008 amounted to \$27,151, which included \$9,658 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, 2008
(Continued)**

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

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

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

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

H. **Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City 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, 2008
(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, 2008.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, 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, 2008
(Continued)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

M. Fund Balance Reserves

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

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepaid items, loan receivable from Northeast Ohio Areawide Coordinating Agency (NOACA), and debt service in the governmental fund financial statements.

N. Estimates

The preparation of the BFS 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, 2008
(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 income tax distributions.

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

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 2008.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. **Change in Accounting Principles**

For fiscal year 2008, the City implemented GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and No. 50, *Pension Disclosures*. GASB Statement No. 45 provides guidance on all aspects of other post-employment benefit (OPEB) reporting by employers. GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of GASB Statements No. 45, No. 49 and No. 50 did not affect the presentation of the financial statements of the City.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

B. Deficit Fund Balances

Fund balances at December 31, 2008, included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
Safety Forces Levy	\$ 21,813
 <u>Nonmajor Fund</u>	
Fire Equipment	\$ 107,710
OPWC – Holly Drive	131,544

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance in the OPWC - Holly Drive Fund resulted primarily from bond anticipation notes being reported as fund liabilities rather than as other financing sources. The deficit fund balances in the Safety Forces Levy Fund and the Fire Equipment Fund were due to accrued liabilities.

NOTE 4: **DEPOSITS AND INVESTMENTS**

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

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

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, 2008
(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 (STAROhio).

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, 2008
(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, 2008, the carrying amount of all City deposits was \$1,039,760. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2008, \$336,036 of the City's bank balance of \$1,069,052 was exposed to custodial risk as discussed below, while \$733,016 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 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, 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, 2008
(Continued)**

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

C. Investments

As of December 31, 2008, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAROhio	<u>\$ 302,614</u>	<u>\$ 302,614</u>

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

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

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAROhio	<u>\$ 302,614</u>	<u>100.00 %</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2008:

<u>Cash and Investments per Footnote</u>	
Cash on Hand	\$ 710
Carrying Amount of Deposits	1,039,760
Investments	<u>302,614</u>
Total Cash and Investments per Footnote	<u>\$1,343,084</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental Activities	\$1,235,408
Agency Funds	<u>107,676</u>
Total Cash and Investments per Statement of Net Assets	<u>\$1,343,084</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(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. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 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 2008 (other than public utility property) represent the collection of 2008 taxes. Tangible personal property taxes received in 2008 were levied after October 1, 2007, on the true value as of December 31, 2007. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 6.25 percent for 2008. This percentage will be reduced to zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 5: **TAXES** (Continued)

A. **Property Taxes** (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2007-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing cities in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2008, was \$24.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property Tax	\$ 147,577,240
Public Utility Tangible Personal Property Tax	4,091,590
Tangible Personal Property Tax	<u>1,401,495</u>
Total Assessed Valuation	<u>\$ 153,070,325</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2008. 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 \$895,745 for fiscal year 2008.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2008, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue, and the amount NOACA will service the debt on the City's State Infrastructure Bank (SIB) loan. Receivables have been recorded to the extent that they are measurable at December 31, 2008.

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

Governmental Activities

Property Taxes	\$ 1,977,961
Income Taxes	218,117
Accounts	74,493
Intergovernmental	1,763,958
Special Assessments	1,961

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.

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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, 2008
(Continued)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balances 12/31/2007	Additions	Disposals	Balances 12/31/2008
Governmental Activities				
Nondepreciable Assets:				
Land	\$ 495,279			\$ 495,279
Construction in progress	1,519,083	1,690,537		3,209,620
Total Nondepreciable Assets	<u>2,014,362</u>	<u>1,690,537</u>	<u>-</u>	<u>3,704,899</u>
Depreciable Assets:				
Land Improvements	124,613			124,613
Buildings	600,100			600,100
Furniture, fixtures and equipment	565,797	98,458	(17,918)	646,337
Vehicles	1,084,897	433,429	(205,924)	1,312,402
Infrastructure:				
Roads	714,879	101,275		816,154
Storm sewers	598,789			598,789
Total Depreciable Assets	<u>3,689,075</u>	<u>633,162</u>	<u>(223,842)</u>	<u>4,098,395</u>
Less Accumulated Depreciation				
Land Improvements	(23,885)	(6,231)		(30,116)
Buildings	(316,730)	(15,018)		(331,748)
Furniture, fixtures and equipment	(144,586)	(28,043)	15,607	(157,022)
Vehicles	(557,485)	(94,777)	123,188	(529,074)
Infrastructure:				
Roads	(67,749)	(50,937)		(118,686)
Storm sewers	(35,163)	(21,687)		(56,850)
Total Accumulated Depreciation	<u>(1,145,598)</u>	<u>(216,693)</u>	<u>138,795</u>	<u>(1,223,496)</u>
Total Depreciable Assets, Net	<u>2,543,477</u>	<u>416,469</u>	<u>(85,047)</u>	<u>2,874,899</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,557,839</u>	<u>\$ 2,107,006</u>	<u>\$ (85,047)</u>	<u>\$ 6,579,798</u>

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

Security of Persons and Property:	\$ 76,556
Leisure Time Activities	9,351
Transportation	98,087
General Government	32,699
Total Depreciation Expense	<u>\$ 216,693</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 8: INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2008, consisted of the following, as reported on the fund financial statements:

<u>Transfers to:</u>	<u>Transfers from:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 8,451	\$ 8,451
Andrews Road Reconstruction Fund	31,955	-	31,955
Nonmajor Governmental Funds	56,365	6,868	63,233
	<u>88,320</u>	<u>15,319</u>	<u>103,639</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: CAPITAL LEASES – LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized on the statement of net assets in the amount of \$23,693. This amount represents the present value of the minimum lease payments at the time of the acquisitions. Accumulated depreciation as of December 31, 2008 was \$6,516, leaving a current book value of \$17,177. As of December 31, 2008, the corresponding liability was paid in full. Principal payments in fiscal year 2008 totaled \$4,612 in the General Fund.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 10: NOTES PAYABLE

The City had the following outstanding bond anticipation notes at December 31, 2008:

	Interest Rate	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Various purpose improvements Bond anticipation notes	4.150%	\$ 900,000	\$ -	\$(900,000)	-
Various purpose improvements Bond anticipation notes	2.375%	-	1,115,000	-	1,115,000
Total Notes Payable		<u>\$ 900,000</u>	<u>\$1,115,000</u>	<u>\$(900,000)</u>	<u>\$ 1,115,000</u>

During 2008, the City retired the \$900,000 bond anticipation notes that were due on June 25, 2008, and issued \$1,115,000 in bond anticipation notes to finance the following projects: \$770,000 was issued for the State Route 283 project, \$130,000 was issued for the Holly Drive project, and \$215,000 was issued for the purchase of miscellaneous equipment in the General Fund. The proceeds of the bond anticipation notes were recorded in the Andrews Road Construction Fund, a major fund, and the OPWC Holly Drive Fund, a nonmajor governmental fund, and the General Fund, a major fund, respectively. On the fund financial statements, these bond anticipation notes have been reported as fund liabilities of the funds which received the proceeds. The notes have a 2.375 percent interest rate and are scheduled to mature on June 24, 2009.

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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, 2008
(Continued)

NOTE 11: LONG-TERM OBLIGATIONS

A. Changes in Governmental Activities Long-Term Obligations

During the fiscal year 2008, the following changes occurred in the City's governmental activities long-term obligations:

	Interest Rate	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Amounts Due in One Year
Governmental Activities:						
<u>OPWC Loans:</u>						
1996 - 15 years						
OPWC 93 (Salida Rd.)	0%	\$ 33,047	\$ -	\$ (11,014)	\$ 22,033	\$ 11,017
1996 - 20 years						
OPWC 94 (Harbor Creek)	0%	73,151	-	(8,598)	64,553	8,608
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	93,750	-	(7,500)	86,250	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	111,951	-	(6,584)	105,367	6,586
2005 - 20 years						
OPWC 05 (Weber Area)	0%	40,575	-	(2,254)	38,321	2,254
2007 - 20 years						
OPWC 07 (SR 283)	0%	150,000	-	(3,750)	146,250	7,500
Total OPWC Loans		<u>502,474</u>	<u>-</u>	<u>(39,700)</u>	<u>462,774</u>	<u>43,465</u>
<u>Other Long-Term Obligations:</u>						
State Infrastructure Bank Loan	0%-3%	-	1,198,466	-	1,198,466	-
State Infrastructure Bank Loan	0%-3%	-	489,238	-	489,238	-
Compensated absences		319,399	162,754	(138,220)	343,933	125,584
Capital lease obligation		4,612	-	(4,612)	-	-
Total Other long-term obligations		<u>324,011</u>	<u>1,850,458</u>	<u>(142,832)</u>	<u>2,031,637</u>	<u>125,584</u>
Total Governmental Activities long-term obligations		<u>\$ 826,485</u>	<u>\$1,850,458</u>	<u>\$(182,532)</u>	<u>\$2,494,411</u>	<u>\$ 169,049</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.

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

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, 2008
(Continued)**

NOTE 11: **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 is in the amount of \$1,842,140. The City and NOACA have agreed that NOACA will service this debt using its STP funds. The City pledges its general obligation to repay 100 percent of the loan should there be a default by NOACA. As of December 31, 2008, the City has used \$1,198,466 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. A complete amortization schedule will be provided upon 100 percent completion of the project.

The second loan is in the amount of \$752,000. The City has pledged its general obligation to repay 100 percent of the loan. As of December 31, 2008, the City has used \$489,238 of this loan for the project.. A complete amortization schedule will be provided upon 100 percent completion of 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, 2008, are as follows:

<u>Year</u>	<u>OPW C L o a n s</u> <u>Pr i n c i p a l</u>
2009	\$ 43,465
2010	43,464
2011	32,448
2012	32,448
2013	32,448
2014-2018	140,713
2019-2023	92,950
2024-2028	44,838
Total	<u>\$ 462,774</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 11: **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, 2008, the City's total debt margin was \$15,648,493 and the unvoted debt margin was \$7,994,977.

NOTE 12: **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 the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, 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, 2008
(Continued)**

NOTE 12: **PENSION PLAN** (Continued)

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

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 by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2008, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's contribution rate for pension benefits for 2008 was 7.00 percent. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the Traditional Pension and Combined plans for the years ended December 31, 2008, 2007, and 2006 were \$159,372, \$149,399, and \$142,464, respectively; 92.71 percent has been contributed for 2008 and 100 percent has been contributed for 2007 and 2006. The unpaid contribution to fund pension obligations for 2008, in the amount of \$11,600, 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. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 E. 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, 2008
(Continued)**

NOTE 12: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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 for pension obligations to OP&F for the years ended December 31, 2008, 2007, and 2006 were \$188,959, \$184,061 and \$174,848, respectively; 72.79 percent has been contributed for 2008 and 100 percent for 2007 and 2006. The unpaid contribution to fund pension obligations for 2008, in the amount of \$51,415, is recorded as a liability within the respective funds.

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (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 reimbursements to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension or Combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the Member-Directed Plan do not qualify for post-employment health care coverage.

The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care based on authority granted by State statute. The 2008 local government employer contribution rate was 14.00 percent of covered payroll; 7.00 percent of covered payroll was the portion that was used to fund health care for 2008.

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board is authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

Benefits are advance-funded on an actuarially determined basis. The individual entry age actuarial cost method of valuation is used in determining the present value of the OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2007, include a rate of return on investments of 6.50 percent. An annual increase of 4.00 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from .50 percent and 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 5.00 percent for the next seven years. In subsequent years, (eight and beyond) health care costs were assumed to increase at 4.00 percent (the projected inflation rate).

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

The number of active contributing participants in the Traditional Pension and Combined plans was 363,503 as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. The City's actual employer contributions for 2008 which were used to fund post-employment benefits were \$79,527. OPERS' net assets available for payment of benefits at December 31, 2007 (the latest information available) were \$12.8 billion. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2007 (the latest information available), reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$29.8 billion and \$17.0 billion, respectively.

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B premium, and long term care to retirees, qualifying benefit recipients, and their eligible dependents. OP&F provides post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The 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 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. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.50 percent of covered payroll and the total firefighter employer contribution rate is 24.00 percent of covered payroll, of which 6.75 percent of covered payroll was applied to the post-employment health care program during 2007 and 2008.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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 Section 115 and 401(h). In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2008, 2007, and 2006 that were used to fund post-employment benefits were \$46,630 for police and \$15,939 for firefighters, \$44,261 for police and \$15,775 for firefighters, and \$42,791 for police and \$14,647 for firefighters, respectively. The OP&F's total health care expense for the year ended December 31, 2007 (the latest information available) was \$93,205,319, which was net of member contributions of \$56,031,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2007 (the latest information available), was 14,195 for police officers and 10,583 for firefighters.

NOTE 14: **OTHER EMPLOYEE BENEFITS**

A. Deferred Compensation Plan

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 14: **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, and 50 hours for full-time firefighters

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

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

NOTE 15: **CONTINGENCIES**

A. Grants

The City receives financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2008.

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, 2008
(Continued)

NOTE 16: **RISK MANAGEMENT**

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

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

NOTE 17: **BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

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

	<u>General</u>	Safety Forces <u>Levy</u>	Police <u>Levy</u>	Fire <u>Levy</u>
Budget basis	\$ 195,738	\$ 3,361	\$ 19,226	\$ (12,709)
Net adjustment of revenue accruals	(40,152)	-	214	-
Net adjustment of expenditure accruals	(52,008)	(6,455)	(1,998)	(4,069)
Net adjustment of other sources/uses	(206,549)	-	-	-
Adjustment for encumbrances	66,585	-	1,134	12,209
GAAP basis	<u>\$ (36,386)</u>	<u>\$ (3,094)</u>	<u>\$ 18,576</u>	<u>\$ (4,569)</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Highway Administration</u>			
<i>Pass Through the Ohio Department of Transportation</i>			
State Infrastructure Bank Loan (LAK-283-9.43)	E040(432)	20.205	\$ 1,687,704
Total U.S. Department of Highway Administration			<u>1,687,704</u>
<u>U.S. Department of Homeland Security</u>			
<i>Direct Award</i>			
<i>Assistance to Firefighters Grant Program</i>			
Vehicle Acquisition	EMW-2007-FV-06746	97.044	140,600
Total Assistance to Firefighters Grant Program			<u>140,600</u>
<i>Pass Through the Ohio Emergency Management Agency</i>			
Disaster Assistance No. 1656	FEMA-1656-DR-085-49098	97.036	9,659
Total Ohio Emergency Management Agency			<u>9,659</u>
Total U.S. Department of Homeland Security			<u>150,259</u>
Total Expenditures of Federal Awards			<u>\$ 1,837,963</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Lake County, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the City of Mentor-on-the-Lake, Ohio's basic financial statements and have issued our report thereon dated May 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities 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

May 12, 2009

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Mentor-on-the-Lake, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City of Mentor-on the-Lake, Ohio's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Mentor-on-the-Lake, Ohio's management. Our responsibility is to express an opinion on the City of Mentor-on-the-Lake, Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mentor-on-the-Lake, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Mentor-on-the-Lake, Ohio's compliance with those requirements.

In our opinion, the City of Mentor-on-the-Lake, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Mentor-on-the-Lake, Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mentor-on-the-Lake, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mentor-on-the-Lake, Ohio's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities 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

May 12, 2009

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
2008(i)	Type of Financial Statement Opinion	Unqualified
2008(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2008(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2008(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2008(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2008(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2008(v)	Type of Major Programs' Compliance Opinion	Unqualified
2008(vi)	Are there any reportable findings under .510?	No
2007Ivii)	Major Programs (list): State Infrastructure Bank Loan - CFDA #20.205	
2008(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
2008(ix)	Low Risk Auditee?	No
2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS		
None.		
3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS		
None.		

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-MOL-001	Ohio Revised Code Section 5705.38c requires, in part, appropriation at the fund and department level.	Yes	N/A



Mary Taylor, CPA
Auditor of State

CITY OF MENTOR ON THE LAKE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 18, 2009**