

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

***General Purpose  
Financial Statements***  
(Audited)

For The Year Ended  
December 31, 2003

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





**Auditor of State  
Betty Montgomery**

Members of Council and Mayor  
City of Mentor-On-The-Lake  
5860 Andrew 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 Trimble, Julian & Grube, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

July 14, 2004

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

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the City of Mentor-On-The-Lake, Lake County, Ohio, (the “City”), as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Mentor-On-The-Lake, Lake County, as of December 31, 2003, and the results of its operations 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 June 2, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.  
June 2, 2004

CITY OF MENTOR-ON-THE-LAKE  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2003

	Governmental Fund Types			Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust and Agency	General Fixed Assets	General Long-Term Obligations		
<b>ASSETS AND OTHER DEBITS:</b>									
Assets:									
Equity in pooled cash and cash equivalents	\$ 335,268	\$ 140,341	\$ 73,587	\$ 538,558	\$ 108,093	\$ -	\$ -	\$ -	\$ 1,195,847
Receivables (net of allowances):									
Taxes	415,495	1,356,836	339	-	-	-	-	-	1,772,670
Due from other governments	302,562	97,963	-	52,500	-	-	-	-	453,025
Accounts	38,211	-	-	6,896	-	-	-	-	45,107
Special assessments	-	-	176,221	-	-	-	-	-	176,221
Prepayments	10,696	3,106	-	-	-	-	-	-	13,802
Fixed assets	-	-	-	-	-	2,976,618	-	-	2,976,618
Other Debits:									
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-	681,114	-	681,114
Amount available in debt service funds	-	-	-	-	-	-	72,620	-	72,620
<b>Total assets and other debits</b>	<b>\$ 1,102,232</b>	<b>\$ 1,598,246</b>	<b>\$ 250,147</b>	<b>\$ 597,954</b>	<b>\$ 108,093</b>	<b>\$ 2,976,618</b>	<b>\$ 753,734</b>	<b>\$ -</b>	<b>\$ 7,387,024</b>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF MENTOR-ON-THE-LAKE  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS (Continued)  
 DECEMBER 31, 2003

	Governmental Fund Types				Fiduciary Fund Types			Account Groups		
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Memorandum (Only)		
<b>Liabilities:</b>										
Accounts payable	\$ 34,450	\$ 15,346	\$ -	\$ 50,520	\$ -	\$ -	\$ -	\$ 100,316		
Contracts payable	-	-	-	41,989	-	-	-	41,989		
Due to other governments	18,818	-	-	-	-	-	-	18,818		
Accrued wages and benefits	45,610	19,171	-	-	-	-	-	64,781		
Compensated absences payable	-	-	-	-	-	-	223,113	223,113		
Pension obligation payable	-	-	-	-	-	-	34,231	34,231		
Deferred revenue	677,125	1,430,020	176,560	52,500	-	-	-	2,336,205		
OPWC notes payable	-	-	-	-	-	-	308,447	308,447		
Special assessment bonds payable	-	-	-	-	-	-	160,000	160,000		
Bond anticipation note payable	-	-	-	845,000	-	-	-	845,000		
Capital lease obligation payable	-	-	-	-	-	-	27,943	27,943		
Deposits held and due to others	-	-	-	-	107,910	-	-	107,910		
Other accrued liabilities	12,461	4,956	967	-	-	-	-	18,384		
<b>Total liabilities</b>	<b>788,464</b>	<b>1,469,493</b>	<b>177,527</b>	<b>990,009</b>	<b>107,910</b>	<b>-</b>	<b>753,734</b>	<b>4,287,137</b>		
<b>Equity and Other Credits:</b>										
Investments in general fixed assets	-	-	-	-	-	2,976,618	-	2,976,618		
<b>Fund balances (deficit):</b>										
Reserve for encumbrances	1,769	4,449	-	399,107	-	-	-	405,325		
Reserve for prepaids	10,696	3,106	-	-	-	-	-	13,802		
Reserve for debt service	-	-	72,620	-	-	-	-	72,620		
Unreserved-undesignated	301,303	121,198	-	(791,162)	183	-	-	(368,478)		
<b>Total equity and other credits</b>	<b>313,768</b>	<b>128,753</b>	<b>72,620</b>	<b>(392,055)</b>	<b>183</b>	<b>2,976,618</b>	<b>-</b>	<b>3,099,887</b>		
<b>Total liabilities, equity and other credits</b>	<b>\$1,102,232</b>	<b>\$1,598,246</b>	<b>\$250,147</b>	<b>\$597,954</b>	<b>\$108,093</b>	<b>\$2,976,618</b>	<b>\$753,734</b>	<b>\$7,387,024</b>		

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF MENTOR-ON-THE-LAKE, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES/(DEFICIT)  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Revenues:</b>						
Property taxes . . . . .	\$ 239,435	\$ 1,150,710	\$ 41,687	\$ -	\$ -	\$ 1,431,832
Municipal income taxes . . . . .	715,126	-	-	-	-	715,126
Intergovernmental revenues . . . . .	615,276	373,221	5,280	88,064	-	1,081,841
Charges for services . . . . .	442,945	396	-	-	-	443,341
Licenses, permits and fees. . . . .	9,110	-	-	-	-	9,110
Investment income. . . . .	11,362	2,137	-	-	-	13,499
Special assessments . . . . .	-	-	72,131	-	-	72,131
Fines and forfeitures . . . . .	45,980	2,533	-	-	-	48,513
All other revenues . . . . .	45,083	-	-	-	-	45,083
<b>Total revenues. . . . .</b>	<b>2,124,317</b>	<b>1,528,997</b>	<b>119,098</b>	<b>88,064</b>	<b>-</b>	<b>3,860,476</b>
<b>Expenditures:</b>						
<b>Current Operations:</b>						
Security of persons and property. . . . .	711,536	1,303,593	-	-	-	2,015,129
Public health and welfare . . . . .	47,204	-	-	-	-	47,204
Leisure time activities . . . . .	35,976	117	-	125,878	-	161,971
Basic utility services . . . . .	324,187	-	-	-	-	324,187
Transportation. . . . .	262,887	245,514	-	322,277	-	830,678
General government . . . . .	519,225	-	-	-	-	519,225
Capital outlay . . . . .	102,294	5,944	-	-	-	108,238
<b>Debt service:</b>						
Principal retirement . . . . .	7,188	-	122,125	-	-	129,313
Interest and fiscal charges. . . . .	801	-	17,991	17,550	-	36,342
<b>Total expenditures . . . . .</b>	<b>2,011,298</b>	<b>1,555,168</b>	<b>140,116</b>	<b>465,705</b>	<b>-</b>	<b>4,172,287</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	113,019	(26,171)	(21,018)	(377,641)	-	(311,811)
<b>Other financing sources (uses):</b>						
Proceeds of capital lease . . . . .	24,875	-	-	-	-	24,875
Operating transfers in . . . . .	-	600	73,050	67,550	-	141,200
Operating transfers (out) . . . . .	(101,265)	-	-	(39,935)	-	(141,200)
Other financing sources . . . . .	3,747	632	-	-	864	5,243
Other financing uses . . . . .	(23,899)	(13,957)	(4,405)	-	(1,247)	(43,508)
<b>Total other financing sources and (uses). . . . .</b>	<b>(96,542)</b>	<b>(12,725)</b>	<b>68,645</b>	<b>27,615</b>	<b>(383)</b>	<b>(13,390)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses . . . . .	16,477	(38,896)	47,627	(350,026)	(383)	(325,201)
Fund balance (deficit) at beginning of year. . . . .	297,291	167,649	24,993	(42,029)	566	448,470
Fund balance (deficit) at end of year . . . . .	\$ 313,768	\$ 128,753	\$ 72,620	\$ (392,055)	\$ 183	\$ 123,269

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF MENTOR-ON-THE-LAKE  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS			TOTAL MEMORANDUM ONLY		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:															
Property Taxes	\$ 238,583	\$ 239,435	\$ 852	\$ 1,143,414	\$ 1,150,711	\$ 7,297	\$ 41,540	\$ 41,687	\$ 147	\$ -	\$ -	\$ 1,423,537	\$ 1,431,833	\$ 8,296	
Municipal Income Taxes	713,000	712,216	(784)	-	-	-	-	-	-	-	-	713,000	712,216	(784)	
Intergovernmental Revenues	615,127	615,278	151	363,156	366,776	3,620	5,280	5,280	-	-	(207,436)	1,279,063	1,075,398	(203,665)	
Charges for Services	448,320	452,229	3,909	500	395	(105)	-	-	-	295,500	88,064	448,820	452,624	3,804	
Licenses and Permits	8,640	9,135	495	-	-	-	-	-	-	-	-	8,640	9,135	495	
Investment Earnings	10,000	11,362	1,362	2,300	2,137	(163)	-	-	-	-	-	12,300	13,499	1,199	
Special Assessments	-	-	-	-	-	-	62,120	62,179	59	-	-	62,120	62,179	59	
Fines and Forfeitures	45,500	45,396	(104)	2,400	2,533	133	-	-	-	-	-	47,900	47,929	29	
All Other Revenues	44,670	45,233	563	-	-	-	-	-	-	1,000	-	45,670	45,233	(437)	
Total Revenues	2,123,840	2,130,284	6,444	1,511,770	1,522,552	10,782	108,840	109,146	206	296,500	88,064	4,041,050	3,850,046	(191,004)	
Expenditures:															
Current:															
Security of Persons & Property	710,880	679,899	30,981	1,378,109	1,332,270	45,839	-	-	-	-	-	2,088,989	2,012,169	76,820	
Public Health & Welfare Service	47,600	47,204	396	-	-	-	-	-	-	-	-	47,600	47,204	396	
Leisure Time Activities	44,620	36,687	7,933	3,700	117	3,583	-	-	-	143,844	111,456	192,164	148,260	43,904	
Basic Utility Services	324,110	323,157	953	-	-	-	-	-	-	-	-	324,110	323,157	953	
Transportation	307,130	258,906	48,224	262,744	251,941	10,803	-	-	-	877,337	722,245	1,447,211	1,233,092	214,119	
General Government	561,459	534,374	27,085	-	-	-	-	-	-	119,000	-	680,459	534,374	146,085	
Capital Outlay	94,338	85,410	8,928	19,000	4,514	14,486	-	-	-	-	-	113,338	89,924	23,414	
Debt Service:	-	-	-	-	-	-	121,124	122,125	(1,001)	650,000	650,000	771,124	772,125	(1,001)	
Principal Retirement	-	-	-	-	-	-	22,880	17,679	5,001	17,550	17,550	40,430	35,429	5,001	
Interest & Fiscal Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Expenditures	2,090,137	1,965,637	124,500	1,663,553	1,588,842	74,711	144,004	140,004	4,000	1,807,731	1,501,251	5,705,425	5,195,734	509,691	
Excess (Deficiency) of Revenues Over Expenditures	33,703	164,647	130,944	(151,783)	(66,290)	85,493	(35,064)	(30,858)	4,206	(1,511,231)	(1,413,187)	(1,664,375)	(1,345,688)	318,687	
Other Financing Sources (Uses):															
Proceeds of Notes	-	-	-	-	-	-	-	-	-	845,000	845,000	-	-	-	
Operating Transfers - In	-	-	-	600	600	-	33,120	73,050	39,930	67,550	67,550	-	-	-	
Operating Transfers - Out	(101,270)	(101,265)	5	-	-	-	-	-	-	(39,935)	(39,935)	-	-	-	
Other Financing Sources	3,750	3,777	27	-	632	632	-	-	-	-	-	3,750	4,409	659	
Other Financing Uses	(18,570)	(11,899)	6,671	(15,000)	(13,957)	1,043	(1,000)	(4,407)	(3,407)	-	-	(34,570)	(30,265)	4,307	
Total Other Financing Sources (Uses)	(116,090)	(109,387)	6,703	(14,400)	(12,725)	1,675	32,120	68,643	36,523	872,615	872,615	774,245	819,146	44,901	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures & Other Uses	(82,387)	55,260	137,647	(166,183)	(79,015)	87,168	(2,944)	37,785	40,729	(638,616)	(540,572)	(890,130)	(526,542)	365,588	
Fund Balance, Beginning of Year	244,645	244,645	-	196,014	196,014	-	35,802	35,802	-	348,951	348,951	825,412	825,412	-	
Prior year encumbrances Appropriated	33,597	33,597	-	10,153	10,153	-	-	-	-	290,846	290,846	334,596	334,596	-	
Fund Balance, End of Year	\$ 195,855	\$ 333,502	\$ 137,647	\$ 39,984	\$ 127,152	\$ 87,168	\$ 32,858	\$ 73,587	\$ 40,729	\$ 1,181	\$ 992,225	\$ 269,878	\$ 633,466	\$ 363,588	

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

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.

##### A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the City (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of voting majority of a legally separate organization and either the City's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to or impose a financial burden on the City. Based on the foregoing, the reporting entity of the City includes the following services: public safety, highways and streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

Based on the foregoing criteria, the following organization is not part of the City's reporting entity and is excluded from the financial statements:

Mentor Exempted Village School District - The members of the Board of Education of the School District (Board) are elected by the voters within the District. The Board is a body of politic and corporate, capable of suing, contracting, and possessing, acquiring and disposing of real property. The Board controls its own operations and budget.

##### B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are summarized by type in the general-purpose financial statements. The following fund types and account groups are used by the City.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION - (Continued)

##### Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio, and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest, and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

##### Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The following are the City's fiduciary fund types:

Expendable Trust Fund - This fund is accounted for and reported similarly to governmental funds.

Agency Funds - These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION - (Continued)

##### Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all general fixed assets of the City.

General Long-Term Obligation Account Group - This account group is established to account for all unmatured long-term indebtedness of the City.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed in the statements issued by the GASB and other recognized authoritative sources.

##### A. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund 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.

All governmental funds, expendable trust fund and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the account period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

##### B. 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, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal 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: interest, federal and state grants and subsidies, state levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fines and forfeitures, fees and special assessments.

##### C. Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded for unmatured principal and interest on general and special assessment long-term debt, which are recognized when due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

##### D. Budgetary Process

The budgetary process is prescribed by provision 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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendments throughout the year.

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the department level for the General Fund and at the fund level for all other funds. Budgetary modifications may only be made by ordinance of the City Council.

##### 1. Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year 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 20th of each year, for the period January 1 to December 31 of the following year.

##### 2. 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 Budget Commission then certifies its actions to the City by September 1st of each year. As part of the certification process the City receives an official certificate of estimated resources which states the projected receipts by 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.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

#### 3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and object within a fund may be modified during the year by an ordinance of City Council.

The budgetary figures which appear in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – (Non-GAAP Budgetary Basis) - All Governmental Fund Types are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

#### 4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures, are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year-end are reported as a reserve of fund balance for subsequent year expenditures in the accompanying general-purpose financial statements. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

5. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a budgetary basis of accounting instead of a GAAP basis. The major differences between the budget basis and the GAAP basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- C. Outstanding year-end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance (GAAP basis) for governmental funds.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

Excess (Deficiency) of Revenues and Other Financing Sources  
Over Expenditures and Other Financing (Uses)

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$ 16,477	\$ (38,896)	\$ 47,627	\$ (350,026)
Adjustments:				
Net adjustment for revenue accruals	5,967	(6,445)	(9,952)	-
Net adjustment for expenditure accruals	47,427	(20,485)	112	(596,213)
Net adjustment for other financing sources/(uses) accruals	(12,845)	-	(2)	845,000
Encumbrances	<u>(1,766)</u>	<u>(13,189)</u>	<u>-</u>	<u>(439,333)</u>
Budget Basis	<u>\$ 55,260</u>	<u>\$ (79,015)</u>	<u>\$ 37,785</u>	<u>\$ (540,572)</u>

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

##### E. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) on the combined balance sheet.

During 2003 investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

Investments are reported at cost except for investments in STAR Ohio which are reported at fair value. Fair value is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General fund during fiscal 2003 totaled \$11,362, which included interest in the amount of \$8,625 assigned from other funds.

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

##### F. Fixed Assets and Depreciation

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage system and lighting system, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

The City has elected not to record depreciation in the General Fixed Asset Account Group. Only fixed assets valued at \$250 and over are recognized.

G. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Bond Retirement
Special Assessment Bonds	Special Assessment Fund
OPWC Loan	General Bond Retirement
Compensated Absences	Various Funds
Pension Obligation Fund	Various Funds
Capital Leases Payable	General Fund

H. Compensated Absences

The City implements the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." The City records a liability for vacation and compensation time benefits when the obligation is attributable to services previously rendered, the obligation relates to rights that are vested, or payment of the obligation is probable and the amount of the obligation can be reasonably determined. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that 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.

For governmental funds, the portion of unpaid leave expected to be paid using current available financial resources is reported as an expenditure in the fund from which the individuals earning the leave are paid, with corresponding liability reflected in the account "Compensated Absences Payable". The long-term portion of the liability is reported in the General Long-Term Obligation Account Group.

I. Pensions

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

**J. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The City did not have short-term interfund loans receivable or payable at December 31, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The City had no long-term advances receivable or payable at December 31, 2003.

**K. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specified future use. Fund balances are reserved for encumbrances, prepayments and debt service.

**L. Prepayments**

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

M. Estimates

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

N. Total Columns on Combined Financial Statements

Total columns on the Combined Statements-Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted account principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

A. Deficit Fund Balances

Fund balances at December 31, 2003 included the following fund deficits:

<u>Fund Type/Fund</u>	<u>Deficit Balances</u>
<u>Capital Projects</u>	
Library Branch	\$ (73,000)
OPWC-99/Reynolds Road	(162,000)
State Route 283	(96,337)
Recreation Capital Projects	(23,983)
OPWC-02/Holly Drive	(127,468)
OPWC-93/Salida Road	(28,268)

These funds complied with Ohio State law, which does not permit a cash basis deficit at year end. The Bond Anticipation Note is for various purposes and allocated to the above funds. The deficit balance in the Capital Projects funds are due to the recording of the bond anticipation note as fund liabilities for GAAP purposes.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

**B. Non-compliance**

Contrary to Ohio Revised Code Section 5705.10, the City maintained a negative cash balance in the following fund at December 31, 2003:

<u>Fund Type/Fund</u>	<u>Deficit Balance</u>
<u>Capital Projects Fund Type:</u>	
Recreation	\$ 10,328

**C. Prior Period Adjustment**

The City has a special assessment bond that is funded through individual special assessments. The City recorded a prior period adjustment in the Debt Service Fund Type: Bond Retirement fund to record the full receivable. This receivable is long-term in nature and thus has a corresponding liability of deferred revenue recorded. There was no effect on the City's beginning fund balances.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

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

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

1. United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency, or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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

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

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### **NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (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 Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of the transfer from the custodian.

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

#### Deposits:

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.
- Category 3 - Uncollateralized

#### Investments:

- Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

A. Deposits

At year-end the carrying amount of the City's deposits were \$593,630 and the bank balance was \$610,462. Of the bank balances:

1. \$200,000 was covered by federal depository insurance; and
2. \$410,462 was uninsured and uncollateralized as defined by GASB 3. This was secured by collateral pools pledged by third-party trustees pursuant to Ohio Revised Code Section 135.181. Although all State statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

Investments in the STAR Ohio are not evidenced by securities that exist in physical or book entry form and therefore, are not categorized as to the level of risk assumed by the City. The City's investments at December 31, 2003 are summarized below:

	<u>Carrying Amount</u>	<u>Fair Value</u>
STAR Ohio	\$ <u>602,217</u>	\$ <u>602,217</u>
Total Investments	\$ <u>602,217</u>	\$ <u>602,217</u>

Reconciliation between the classifications of pooled cash and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Equity with City</u>	<u>Investments</u>
Per Combined Balance Sheet	\$ 1,195,847	\$ -
Reclassifications:		
State Treasurer's Investment Pool and Bank One Savings	<u>(602,217)</u>	<u>602,217</u>
Per GASB Statement No. 3	<u>\$ 593,630</u>	<u>\$ 602,217</u>

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

#### **NOTE 5 - TAXES**

##### A. Property Taxes

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

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

The full tax rate for all City operations for the year ended December 31, 2003, was \$24.00 per \$1,000 of assessed value. The assessed value for 2002 was \$115,894,499. This amount constitutes \$109,873,900 in real property assessed value, \$3,866,710 in public utility assessed value and \$2,153,889 in tangible personal property assessed value.

**B. Income Tax**

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

Employers within the City are required to withhold income tax on employee's compensation and remit the tax to the City either monthly or quarterly. Corporation and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2003 was \$715,126.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2003 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables. All receivables are considered collectible.

The following is a summary of principal items that were receivable at December 31:

<u>Fund Type/Fund</u>	<u>Amounts</u>
<i>General Fund</i>	
Income Tax	\$ 48,548
Property Tax	<u>366,947</u>
Total Taxes	<u>415,495</u>
Due From Other Governments	302,562
Other	<u>38,211</u>
Total General Fund	<u>756,268</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 6 - RECEIVABLES - (Continued)**

Fund Type/Fund	Amounts
<i>Special Revenue Funds</i>	
Police Pension Fund	
Property Tax	\$ 40,810
Police Levy Fund	
Property Tax	391,408
Fire Levy Fund	
Property Tax	312,466
Safety Forces Levy Fund	
Property Tax	<u>612,152</u>
 Total Taxes	 <u>1,356,836</u>
 L.E.E.F.	
Due From Other Governments	50
Street Maintenance Fund	
Due From Other Governments	90,570
State Highway Fund	
Due From Other Governments	<u>7,343</u>
 Total Due From Other Governments	 <u>97,963</u>
 Total Special Revenue Funds	 <u>1,454,799</u>
 <i>Debt Service Funds</i>	
General Obligation Bond Retirement Fund	
Property Tax	339
Lakeway Special Assessment Fund	
Special Assessments	<u>176,221</u>
 Total Debt Service Funds	 <u>176,560</u>
 <i>Capital Project Funds</i>	
Recreation Capital Projects	
Due From Other Governments	52,500
OPWC 93 – Salida Rd.	
Accounts	<u>6,896</u>
 Total Capital Project Funds	 <u>59,396</u>
 Grand Total	 <u>\$2,447,023</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 7 - INTERFUND TRANSACTIONS**

Following is a summary of operating transfers in and out for all funds for 2003:

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	<u>\$ -</u>	<u>\$ 101,265</u>
<u>Special Revenue Fund Type:</u>		
ODNR - Fishing	<u>600</u>	<u>-</u>
<u>Debt Service Fund Type:</u>		
General Bond Retirement	<u>73,050</u>	<u>-</u>
<u>Capital Projects Fund Type:</u>		
Library Branch	26,890	-
Recreation	1,350	-
OPWC-99/Reynolds Road	3,780	39,935
OPWC-93/Salida Road	25,676	-
SR 283 Reconstruction	9,854	-
Total Capital Projects	<u>67,550</u>	<u>39,935</u>
Total	<u>\$ 141,200</u>	<u>\$ 141,200</u>

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

**NOTE 8 - FIXED ASSETS**

General Fixed Assets - Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2003</u>
Land	\$ 398,435	\$ -	\$ (4,677)	\$ 393,758
Buildings	600,100	-	-	600,100
Machinery and Equipment	841,346	87,825	(27,055)	902,116
Furniture and Fixtures	28,485	1,223	-	29,708
Vehicles	<u>1,039,872</u>	<u>35,153</u>	<u>(24,089)</u>	<u>1,050,936</u>
TOTAL	<u>\$2,908,238</u>	<u>\$124,201</u>	<u>\$(55,821)</u>	<u>\$2,976,618</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$38,375. This amount represents the present value of the minimum lease payments at the time of the acquisitions. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2003 totaled \$7,188 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum payments as of December 31, 2003:

<u>Fiscal Year Ending December 31,</u>	<u>Skid Steer</u>	<u>911</u>
2004	\$ 4,641	\$ 3,348
2005	4,641	3,348
2006	4,641	1,953
2007	4,641	-
2008	4,641	-
Total	<u>23,205</u>	<u>8,649</u>
Less: amount representing interest	<u>(2,972)</u>	<u>(939)</u>
Present value of net minimum lease payments thereafter	<u><u>\$ 20,233</u></u>	<u><u>\$ 7,710</u></u>

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### **NOTE 10 - DEFINED BENEFIT PENSION PLANS**

##### **A. Ohio Public Employees Retirement System**

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5 percent for employees other than law enforcement. In January 2001, House Bill 416 divided the OPERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the OPERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer contribution rate was 13.55 percent of covered payroll for 2003. The City's contributions for pension obligations to the OPERS for the years ended December 31, 2003, 2002, and 2001 were \$132,810, \$129,285, and \$118,960, respectively.

##### **B. Police and Fireman's Disability Pension Fund**

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to the OP&F for the years ended December 31, 2003, 2002, and 2001, were \$155,7622, \$150,564, and \$152,619, respectively.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### **NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

##### A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System of Ohio provides post retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care. The law enforcement and public safety division employer rate for 2002 was 16.70% of covered payroll; 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

OPEB's are advance-funded on an actuarially determined basis. The number of active contributing participants was 364,881. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2002, Comprehensive Annual Financial Report.

##### B. Police and Fireman's Disability Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers." The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate.

## CITY OF MENTOR-ON-THE-LAKE

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### **NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. Health care funding and accounting is on a pay-as-you-go basis. Currently, 7.75% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. 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 a monthly health care contribution.

The number of participants eligible to receive health care benefits as of Dec. 31, 2002, was 13,527 for police officers and 10,396 for firefighters. The OP&F's total health care expenses for the year ending Dec. 31, 2002, were \$141 million, which was net member contributions of 12.5 million.

#### **NOTE 12 - OTHER EMPLOYEE BENEFITS**

##### **A. Deferred Compensation Plan**

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

##### **B. Compensated Absences**

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)**

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 in the General Long-Term Obligations Account Group.

**NOTE 13 - LONG-TERM OBLIGATIONS**

Long-Term Obligations Account Group of the City as of December 31, 2003 were as follows:

<u>Classification</u>	<u>Interest Rate</u>	<u>Balance 12/31/02</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Outstanding 12/31/03</u>
<u>Special Assessment Bond:</u>					
Lakeway Street Improvement – 1987	7.25%	<u>\$210,000</u>	<u>\$ 0</u>	<u>\$(50,000)</u>	<u>\$160,000</u>
<u>General Obligation Bond:</u>					
Fire Department Equipment – 1993	5.9%	<u>\$ 45,000</u>	<u>0</u>	<u>\$(45,000)</u>	<u>\$ 0</u>
<u>Notes:</u>					
1996 15 year OPWC - 93 (Salida Rd.)	0%	\$ 88,132	0	(11,018)	\$ 77,114
1996 20 year OPWC - 94 (Harbor Creek)	0%	116,190	0	(8,607)	107,583
1999 20 year OPWC – 99(Reynolds Rd.)	0%	<u>131,250</u>	<u>0</u>	<u>(7,500)</u>	<u>123,750</u>
Total Notes		<u>\$335,572</u>	<u>\$ 0</u>	<u>\$(27,125)</u>	<u>\$308,447</u>
<u>Other Long-Term Obligations:</u>					
Police and Firemens Accrued Liability	N/A	34,828	34,231	(34,828)	34,231
Compensated Absences	N/A	196,459	26,654	0	223,113
Capital Lease Obligation		<u>10,256</u>	<u>24,875</u>	<u>(7,188)</u>	<u>27,943</u>
Total Other Long-Term Obligations		<u>241,543</u>	<u>85,760</u>	<u>(42,016)</u>	<u>285,287</u>
Total General Long-Term Obligations		<u>\$ 832,115</u>	<u>\$ 85,760</u>	<u>\$(164,141)</u>	<u>\$ 753,734</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire long-term bond obligations and notes outstanding at December 31, 2003 are as follows:

<u>Year</u>	<u>Special Assessment</u>		<u>OPWC Notes</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 50,000	\$11,600	\$ 27,125
2005	55,000	7,975	27,125
2006	55,000	3,988	27,125
2007	-	-	27,125
2008	-	-	27,125
2009 - 2013	-	-	102,574
2014 – 2020	<u>-</u>	<u>-</u>	<u>70,248</u>
Total	<u>\$160,000</u>	<u>\$ 23,563</u>	<u>\$308,447</u>

**NOTE 14 - NOTES PAYABLE**

The City had the following outstanding Bond Anticipation Note at December 31, 2003:

	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>
	<u>Rate</u>	<u>12/31/02</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>12/31/03</u>
Capital Projects:					
Various Purpose Improvements					
Bond Anticipation Note	1.12%	<u>\$650,000</u>	<u>\$845,000</u>	<u>\$(650,000)</u>	<u>\$845,000</u>

The City issued \$845,000 in bond anticipation notes during 2003 to fund a portion of the cost of improving state route 283, to pay a portion of the costs of acquiring certain real estate and to pay a portion of costs to improve Holly Drive. The proceeds were recorded in the Capital Projects funds. The notes have a 1.12% interest rate and are scheduled to mature on June 1, 2004.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 15 - CONTINGENT LIABILITIES**

A. Grants

The City receives financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

B. Litigation

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

**NOTE 16 - RISK MANAGEMENT**

The City is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the City to the commercial company. The City continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

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.

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## **Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the general purpose financial statements of the City of Mentor-On-The-Lake, Lake County, Ohio, as of and for the year ended December 31, 2003, and have issued our report thereon dated June 2, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the City of Mentor-On-The-Lake's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-MOL-001.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mentor-On-The-Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City of Mentor-On-The-Lake in a separate letter dated June 2, 2004.

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

Trimble, Julian & Grube, Inc.  
June 2, 2004

**CITY OF MENTOR-ON-THE-LAKE  
LAKE COUNTY, OHIO  
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS**

**1. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	2003-MOL-001
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Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit, that the City maintained a negative cash fund balance at December 31, 2003, in the following fund:

Fund Type/Fund	Deficit Balance
<u>Capital Projects Fund Type:</u>	
Recreation	\$ 10,328

The City has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the City properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the City should advance or transfer funds from the General Fund with proper Council approval.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

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

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 27, 2004**