

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

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

For The Year Ended
December 31, 2005

MR. KIP MOLENAAR, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

City Council
City of Mentor-on-the-Lake
5860 Andrews Rd.
Mentor-on-the-Lake, OH 44060

We have reviewed the *Independent Auditors' Report* of the City of Mentor-on-the-Lake, Lake County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. 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

June 27, 2006

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CITY OF MENTOR-ON-THE-LAKE, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County, Ohio, (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County, Ohio as of December 31, 2005, and the respective changes in financial position, and the respective budgetary comparison for the general fund, safety forces levy, police levy and fire levy special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-002 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers" for the year ended December 31, 2005. In addition, as disclosed in Note 3B., the City has restated net assets due to errors and omissions related to accumulated depreciation and OPWC note payable.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion in the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 5, 2006

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The management's discussion and analysis of the City of Mentor-on-the-Lake's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$350,139.
- General revenues accounted for \$3,094,014 of total governmental activities revenue. Program specific revenues accounted for \$1,106,359 or 26.34% of total governmental activities revenue of \$4,200,373.
- The City had \$3,850,234 in expenses related to governmental activities; \$1,106,359 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,743,875 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,094,014.
- The City had five major funds consisting of the General fund, Safety Forces Levy special revenue fund, Police Levy special revenue fund, Fire Levy special revenue fund, and Andrews Road Construction capital projects fund.
- The general fund had revenues of \$2,315,484 in 2005. This represents an increase of \$22,339 from 2004 revenues. The expenditures and other financing uses of the general fund, which totaled \$2,296,490 in 2005, increased \$49,818 from 2004. The net increase in fund balance for the general fund was \$18,994 or 4.91%.
- The safety forces levy fund had revenues of \$651,710 in 2005, which is an increase of \$29,187 from 2004 revenues. The expenditures in the safety forces levy fund totaled \$639,479 in 2005, which decreased \$1,597 from 2004. The net increase in fund balance was \$12,231, resulting in an ending fund deficit of \$1,849.
- The police levy fund had revenues of \$432,798, which is an increase of \$31,717 from 2004 revenues. The expenditures totaled \$410,166 in 2005, which decreased \$1,073 from 2004 expenditures. The net increase in fund balance was \$22,632, resulting in an ending fund balance of \$39,166.
- The fire levy fund had revenues of \$344,919, which is an increase of \$25,871 from 2004 revenues. The expenditures totaled \$348,170 in 2005, which increased \$13,337 from 2004 expenditures. The net decrease in fund balance was \$3,251, resulting in an ending fund balance of \$10,823.
- The Andrews Road construction fund had other financing sources of \$8,800, which is an increase of \$8,800 from 2004 revenues. The expenditures totaled \$53,683 which is a decrease of \$60,098 from 2004 expenditures. The net decrease in fund balance was \$44,883, resulting in an ending fund deficit of \$305,001.
- In the general fund, the actual revenues came in \$9,408 higher than they were in the final budget and actual expenditures were \$127,494 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. The final budget revenues came in \$60,200 higher than they were in the original budget and final budget expenditures were \$5,050 higher than the amount in the original budget.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The Basic Financial Statements

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes, special assessments, and intergovernmental revenues including federal and state grants and other shared revenues.

The City's statement of net assets and statement of activities can be found on pages 16-18 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Funds

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, safety forces levy fund, police levy fund, fire levy fund and Andrews Road construction fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19 - 28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary is an agency fund. The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 30 - 53 of this report.

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2005 and 2004. Certain 2004 amounts have been restated due to prior period adjustments to correct prior year errors, detailed in Note 3.B of the notes to the financial statements.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	Net Assets	
	2005	Restated 2004
	Governmental Activities	Governmental Activities
	<u> </u>	<u> </u>
<u>Assets</u>		
Current and other assets	\$ 3,558,644	\$ 3,708,554
Capital assets, net	<u>2,986,929</u>	<u>2,651,090</u>
Total assets	<u>6,545,573</u>	<u>6,359,644</u>
<u>Liabilities</u>		
Other liabilities	2,756,375	2,892,769
Long-term liabilities outstanding	<u>759,525</u>	<u>787,341</u>
Total liabilities	<u>3,515,900</u>	<u>3,680,110</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,491,963	2,236,694
Restricted	301,947	312,670
Unrestricted	<u>235,763</u>	<u>130,170</u>
Total net assets	<u>\$ 3,029,673</u>	<u>\$ 2,679,534</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$3,029,673. At year-end, unrestricted net assets were \$235,763 which is an increase of \$105,593 from 2004.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 45.63% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$2,491,963 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.

As of December 31, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

A portion of the City's net assets, \$301,947, 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 of \$235,763 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2005 and 2004. Certain 2004 amounts have been restated due to prior year adjustments to correct prior year errors, detailed in Note 3.B of the notes to the financial statements.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	Change in Net Assets	
	2005	Restated 2004
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Revenues		
Program revenues:		
Charges for services	\$ 610,144	\$ 566,212
Operating grants and contributions	493,133	296,275
Capital grants and contributions	<u>3,082</u>	<u>81,954</u>
Total program revenues	<u>1,106,359</u>	<u>944,441</u>
General revenues:		
Property taxes	1,688,131	1,750,919
Income taxes	674,981	735,321
Unrestricted grants and entitlements	686,591	613,086
Investment earnings	39,275	16,378
Miscellaneous	<u>5,036</u>	<u>9,095</u>
Total general revenues	<u>3,094,014</u>	<u>3,124,799</u>
Total revenues	<u>4,200,373</u>	<u>4,069,240</u>
Expenses:		
General government	682,041	565,092
Security of persons and property	2,317,593	1,962,382
Public health and welfare	59,319	40,674
Transportation	413,661	408,596
Leisure time activity	56,950	50,427
Refuse services	286,325	300,454
Other	4,810	9,268
Interest and fiscal charges	<u>29,535</u>	<u>33,287</u>
Total expenses	<u>3,850,234</u>	<u>3,370,180</u>
Change in net assets	350,139	699,060
Net assets at beginning of year (restated)	<u>2,679,534</u>	<u>1,980,474</u>
Net assets at end of year	<u>\$ 3,029,673</u>	<u>\$ 2,679,534</u>

Governmental Activities

Governmental activities net assets increased \$350,139 in 2005. This increase is a result of decreased municipal income taxes and property taxes versus amounts reported in the prior year still being more than increased expenditures.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

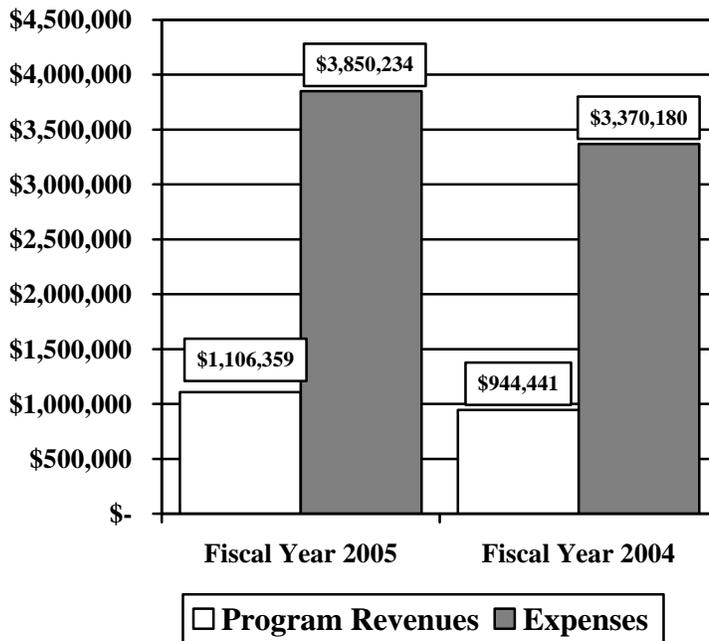
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,317,593 which accounted for 60.19% of the total expenses of the City. These expenses were partially funded by \$100,044 in direct charges to users of the services and \$155,424 in operating grants and contributions. General government expenses totaled \$682,041 which was partially funded by \$156,768 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$493,133 in operating grants and contributions and \$3,082 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received 100% subsidized transportation programs.

General revenues totaled \$3,094,014, and amounted to 73.66% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,363,112. 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 \$686,591.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities – Program Revenues vs. Total Expenses



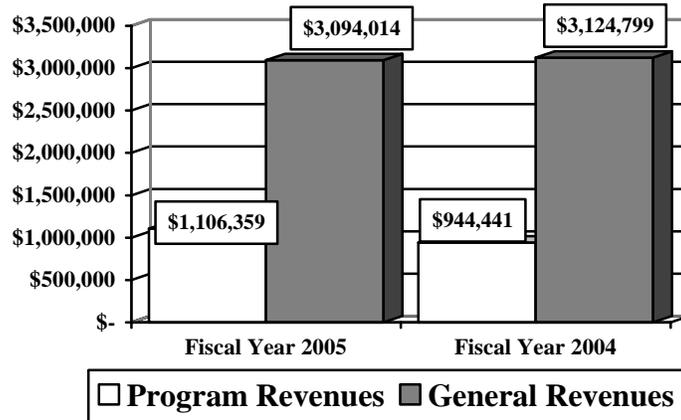
CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Restated Total Cost of Services	Restated Net Cost of Services
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Program Expenses:				
General government	\$ 682,041	\$ 525,273	\$ 565,092	\$ 446,787
Security of persons and property	2,317,593	2,062,125	1,962,382	1,824,740
Public health and welfare	59,319	4,969	40,674	22,659
Transportation	413,661	71,879	408,596	38,563
Leisure time activity	56,950	55,525	50,427	49,172
Refuse services	286,325	(10,241)	300,454	1,263
Other	4,810	4,810	9,268	9,268
Interest and fiscal charges	<u>29,535</u>	<u>29,535</u>	<u>33,287</u>	<u>33,287</u>
Total Expenses	<u>\$ 3,850,234</u>	<u>\$ 2,743,875</u>	<u>\$ 3,370,180</u>	<u>\$ 2,425,739</u>

The dependence upon general revenues for governmental activities is apparent, with 71.27% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



Financial Analysis of the Government's Funds

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 19 - 20) reported a combined fund balance of \$53,403 which is \$38,041 less than last year's total of \$91,444. Fund balances were restated as described in Note 3.A. of the notes to the financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/05</u>	Restated Fund Balances <u>12/31/04</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 405,995	\$ 387,001	\$ 18,994
Safety forces levy	(1,849)	(14,080)	12,231
Police levy	39,166	16,534	22,632
Fire levy	10,823	14,074	(3,251)
Andrews Road construction	(305,001)	(260,118)	(44,883)
Other nonmajor governmental funds	<u>(95,731)</u>	<u>(51,967)</u>	<u>(43,764)</u>
Total	<u>\$ 53,403</u>	<u>\$ 91,444</u>	<u>\$ (38,041)</u>

General Fund

The City's general fund balance increased \$18,994, primarily due to decrease in expenditures. The table that follows assists in illustrating the revenues of the general fund.

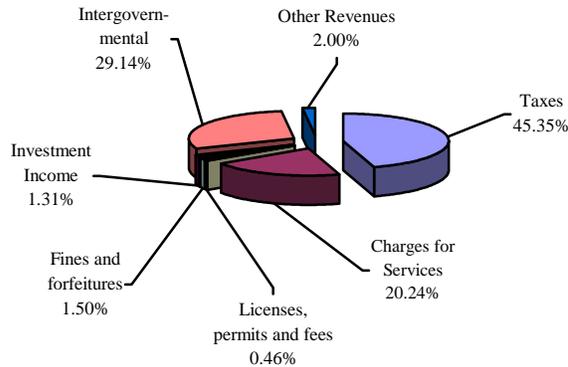
	2005 <u>Amount</u>	2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,050,107	\$ 1,117,558	(6.04) %
Charges for services	468,827	450,930	3.97 %
Licenses, permits and fees	10,567	12,618	(16.25) %
Fines and forfeitures	34,742	36,938	(5.95) %
Intergovernmental	674,719	615,016	9.71 %
Investment income	30,308	13,098	131.39 %
Other	<u>46,214</u>	<u>46,987</u>	(1.65) %
Total	<u>\$ 2,315,484</u>	<u>\$ 2,293,145</u>	0.97 %

Tax revenue represents 45.35% of all general fund revenue. Both property and income tax revenues decreased during 2005. Investment income increased due to an increase in interest rates in 2005. Intergovernmental revenue increased primarily due to an increase in local governmental revenues and estate taxes. All other revenue remained comparable to 2004.

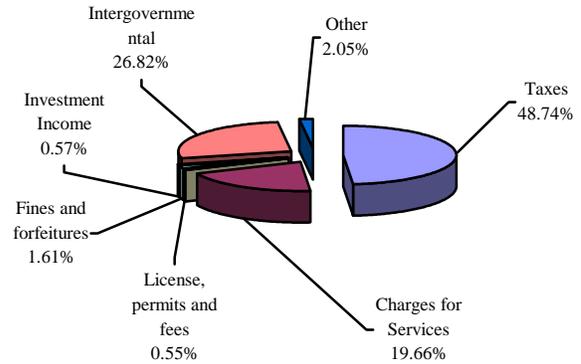
CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Revenues - Fiscal Year 2005



Revenues - Fiscal Year 2004



The table that follows assists in illustrating the expenditures of the general fund. Certain 2004 amounts have been restated as detailed in Note 3.A. of the notes to the financial statements.

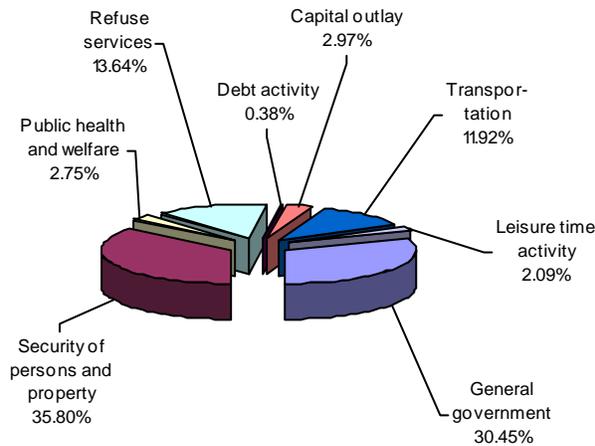
	<u>2005 Amount</u>	<u>Restated 2004 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 639,209	\$ 577,276	10.73 %
Security of persons and property	751,613	665,860	12.88 %
Public health and welfare	57,840	47,601	21.51 %
Transportation	250,226	385,566	(35.10) %
Leisure time activity	43,897	42,095	4.28 %
Refuse services	286,325	300,454	(4.70) %
Capital outlay	62,325	142,071	(56.13) %
Debt activity	8,025	8,595	(6.63) %
Total	<u>\$ 2,099,460</u>	<u>\$ 2,169,518</u>	(3.23) %

The most significant increase was in the area of security of persons and property. This increase is primarily due to increases in wages and benefits. Transportation expenditures decreased in the general fund due to a decrease in road maintenance expended from the general fund. All other expenditures remained comparable to 2004.

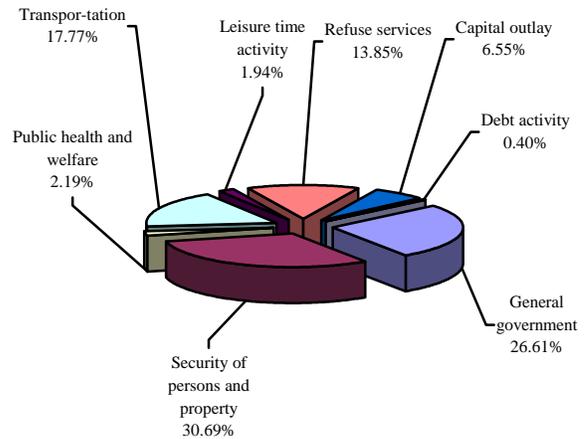
CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Safety Forces Levy Fund

The City's safety forces levy fund, fund deficit balance decreased \$12,231, primarily due to increased revenues. Revenues increased from \$622,523 in 2004 to \$651,710 in 2005. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures decreased slightly from \$641,076 in 2004 to \$639,479, in 2005.

Police Levy Fund

The City's police levy fund's fund balance increased \$22,632, primarily due to increased revenues. Revenues increased from \$401,081 in 2004 to \$432,798 in 2005. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased slightly from \$411,239 in 2004 to \$410,166 in 2005.

Fire Levy Fund

The City's fire levy fund's fund balance decreased \$3,251 primarily due to increased expenditures. The 2004 fund balance was restated as described in Note 3.A of the notes to the financial statements. Revenues increased from \$319,048 in 2004 to \$344,919 in 2005. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures increased from \$334,833 in 2004 to \$348,170, in 2005, due to increases in wages and benefits.

Andrews Road Construction Fund

The City's Andrews Road construction fund's fund deficit increased \$44,883, due to construction expenditures funded by note proceeds. Revenues increased \$8,800 from 2004 due to a transfer. Expenditures decreased from \$113,781 in 2004 to \$53,683, in 2005.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Budgeting Highlights

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

Budgetary information is presented for the general fund, safety forces levy fund, police levy fund and fire levy fund. In the General Fund actual revenues and other financing sources of \$2,374,138 were more than final budgeted revenues and other financing sources by \$9,408. Actual expenditures and other financing uses of \$2,408,292 came in \$127,494 less than the final budgeted amounts. Appropriations were increased by \$5,050 during the year.

Capital Assets and Debt Administration

Capital Assets

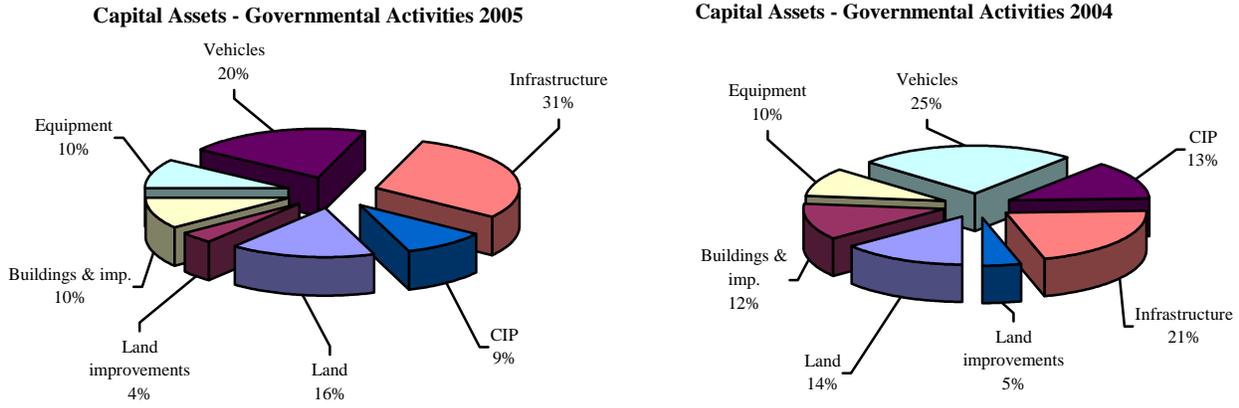
At the end of fiscal 2005, the City had \$2,986,929 (net of accumulated depreciation) invested in land, buildings and improvements, land improvements, equipment, vehicles, infrastructure and construction in progress. The following table shows fiscal 2005 balances compared to 2004 (as restated in Note 8 to the basic financial statements):

**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Land	\$ 492,579	\$ 382,579
Construction-in-progress	282,002	349,417
Land improvements	113,190	119,421
Buildings and improvements	311,036	324,869
Equipment	285,656	257,200
Vehicles	611,249	662,194
Infrastructure	<u>891,217</u>	<u>555,410</u>
Totals	<u>\$ 2,986,929</u>	<u>\$ 2,651,090</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

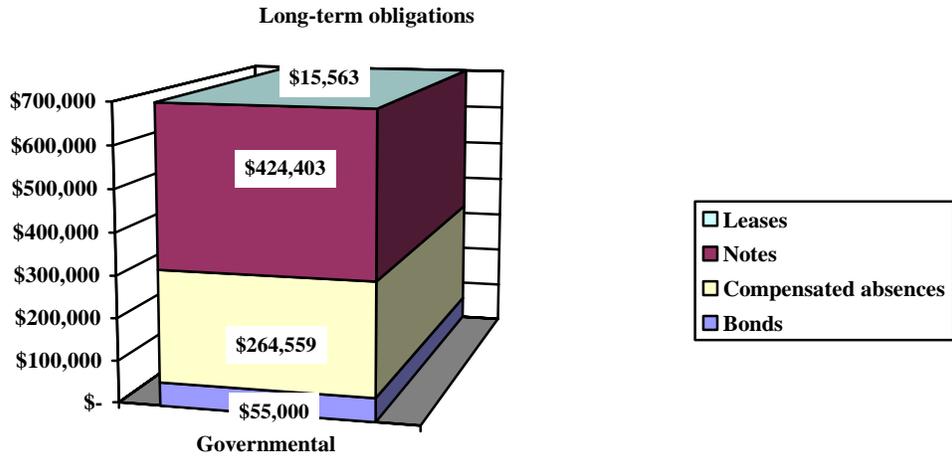


Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004. OPWC notes have been restated as described in Note 3.B of the notes to the financial statements. See Note 10 for details regarding the City's long-term liabilities.

	2005	Restated 2004
Special assessment bonds payable	\$ 55,000	\$ 110,000
Compensated absences	264,559	241,236
Capital lease obligation payable	15,563	23,074
OPWC notes	424,403	413,031
Total long-term obligations	\$ 759,525	\$ 787,341

A comparison of the long-term obligations of 2005 by category is depicted in the chart below.



CITY OF MENTOR-ON-THE-LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Economic Conditions and Outlook

The City of Mentor-on-the-Lake is a bedroom community with only 19% of our tax base being retail and commercial. We are located approximately twenty-five miles east of Cleveland and we enjoy a Lake Erie shoreline of two and one half miles. The City is 98% developed and all roads are paved with sanitary sewers and waterlines.

For 2005, the City was fortunate that the State of Ohio decided not to cut the Local Government Funds for cities and counties. The Local Government Funds represent approximately 23% of the revenues to the City's General Fund. Even though the State of Ohio did not cut the Local Government Funds, they continue to freeze the level funding. The Local Government Funds has not seen an increase in funding since FY 1999. The State has created a commission to study Local Government Funds and it is hoped that they will restore the established funding formula so the cities and counties will experience a real growth in revenues as in past years. Therefore, our FY 2006 budget continues to be very conservative.

Next fiscal year (FY 2006) will continue to be conservative with very few new programs or increases to current programs. The November General Election will bring a very large concern from fiscal officers across the State. Current Secretary of State, Kenneth Blackwell, was successful in putting a constitutional amendment on the November ballot. The amendment is know as a "TEL" which stands for "Tax Expenditure Limit" Its complexity is legendary and its effects on local government will be disastrous Just one item of the proposal is that a new levy (operating or capital) will need to be approved by 51% of the City's registered voters. Most cities can not even get 51% of the registered voters to the polls let alone ensure passage of 51% of the registered voters. If the "TEL" passes, the City of Mentor-on-the-Lake and most all other governmental entities will be reducing basic services to its residents in large proportions.

In FY 2005 and continuing in FY 2006, the City of Mentor-on-the-Lake has been very aggressive in seeking out additional funding for the City's reconstruction of Andrews Road and Lakeshore Blvd (SR 283) Project. Due to the importing of raw material used in road construction projects by China and India, our road project estimate has increased from \$4.2 million to \$5.3 million. To date the City has secured \$4.4 million in funding from Federal, State and County resources to assist with this project. The balance will be provided by the City of Mentor-on-the-Lake through the City's General Fund and loans. The City is still continuing to seek additional grant funds to further reduce the City's local match. The project is scheduled for construction in the spring of 2007 and it will be administered by the Ohio Department of Transportation. It will be the City's largest construction project to date.

The economic health of the State of Ohio will continue to be an important financial factor for the City of Mentor-on-the-Lake. With the incoming of a new Governor this fall, many are very hopeful that the new leadership will be a positive one for our State.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Kip Molenaar, Finance Director, City of Mentor-on-the-Lake, 5860 Andrews Road, Mentor-on-the-Lake, Ohio 44060.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 954,567
Receivables (net of allowances for uncollectibles):	
Property taxes	1,866,498
Income taxes	189,193
Accounts	28,029
Special assessments	60,157
Intergovernmental	444,860
Prepayments	15,340
Capital assets:	
Land and construction-in-progress	774,581
Depreciable capital assets, net.	2,212,348
Total capital assets, net	2,986,929
 Total assets.	 6,545,573
 Liabilities:	
Accounts payable.	47,847
Accrued wages and benefits	90,380
Due to other governments	11,926
Pension obligation	58,891
Deferred revenue.	1,794,419
Accrued interest payable.	12,912
Bond anticipation notes payable.	740,000
Long-term liabilities:	
Due within one year	212,804
Due in more than one year	546,721
Total long-term liabilities	759,525
Total liabilities	3,515,900
 Net assets:	
Invested in capital assets, net of related debt	2,491,963
Restricted for:	
Debt service	99,575
Street construction, maintenance and repairs.	154,675
Fire and safety services.	30,448
Other purposes	17,249
Unrestricted.	235,763
Total restricted net assets	487,247
Total net assets	\$ 3,029,673

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 682,041	\$ 156,768	\$ -	\$ -
Security of persons and property	2,317,593	100,044	155,424	-
Public health and welfare.	59,319	54,350	-	-
Transportation	413,661	991	337,709	3,082
Leisure time activity	56,950	1,425	-	-
Refuse services	286,325	296,566	-	-
Other	4,810	-	-	-
Interest and fiscal charges.	29,535	-	-	-
Total governmental activities	\$ 3,850,234	\$ 610,144	\$ 493,133	\$ 3,082

General Revenues:

Property taxes levied for:	
General purposes.	
Debt service	
Special purposes.	
Income taxes levied for:	
General purposes.	
Grants and entitlements not restricted to specific programs	
Investment earnings.	
Miscellaneous.	
 Total general revenues	
 Change in net assets	
 Net assets at beginning of year (restated)	
 Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

\$	(525,273)
	(2,062,125)
	(4,969)
	(71,879)
	(55,525)
	10,241
	(4,810)
	(29,535)
	<hr/>
	(2,743,875)
	<hr/>
	351,494
	224
	1,336,413
	<hr/>
	674,981
	686,591
	39,275
	5,036
	<hr/>
	3,094,014
	<hr/>
	350,139
	<hr/>
	2,679,534
	<hr/>
\$	<u>3,029,673</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 477,393	\$ 24,694	\$ 55,050	\$ 54,279
Receivables (net of allowance for uncollectibles):				
Property taxes	401,643	649,996	429,614	341,689
Income taxes	189,193	-	-	-
Accounts	26,781	-	-	-
Intergovernmental	300,017	-	-	-
Special assessments	-	-	-	-
Prepayments	11,942	-	2,551	741
Total assets	<u>\$ 1,406,969</u>	<u>\$ 674,690</u>	<u>\$ 487,215</u>	<u>\$396,709</u>
Liabilities:				
Accounts payable	\$ 36,244	\$ -	\$ 5,720	\$ 3,620
Accrued wages and benefits	20,347	26,543	9,989	22,044
Due to other governments	8,871	-	-	3,055
Pension obligation	36,307	-	2,726	15,478
Deferred revenue	899,205	649,996	429,614	341,689
Accrued interest payable	-	-	-	-
Bond anticipation notes payable	-	-	-	-
Total liabilities	<u>1,000,974</u>	<u>676,539</u>	<u>448,049</u>	<u>385,886</u>
Fund Balances:				
Reserved for encumbrances	96,540	-	1,804	7,190
Reserved for prepayments	11,942	-	2,551	741
Reserved for debt service	-	-	-	-
Unreserved, undesignated (deficit) reported in:				
General fund	297,513	-	-	-
Special revenue funds	-	(1,849)	34,811	2,892
Capital projects funds	-	-	-	-
Total fund balances (deficit)	<u>405,995</u>	<u>(1,849)</u>	<u>39,166</u>	<u>10,823</u>
Total liabilities and fund balances	<u>\$ 1,406,969</u>	<u>\$ 674,690</u>	<u>\$ 487,215</u>	<u>\$396,709</u>

-- continued

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Andrews Road Construction	Other Governmental Funds	Total Governmental Funds
\$ 142,479	\$ 200,672	\$ 954,567
-	43,556	1,866,498
-	-	189,193
-	1,248	28,029
-	144,843	444,860
-	60,157	60,157
-	106	15,340
<u>\$ 142,479</u>	<u>\$ 450,582</u>	<u>\$ 3,558,644</u>
\$ -	\$ 2,263	\$ 47,847
-	11,457	90,380
-	-	11,926
-	4,380	58,891
-	223,113	2,543,617
7,480	5,100	12,580
440,000	300,000	740,000
<u>447,480</u>	<u>546,313</u>	<u>3,505,241</u>
2,479	99,982	207,995
-	106	15,340
-	39,750	39,750
-	-	297,513
-	(3,991)	31,863
(307,480)	(231,578)	(539,058)
<u>(305,001)</u>	<u>(95,731)</u>	<u>53,403</u>
<u>\$ 142,479</u>	<u>\$ 450,582</u>	<u>\$ 3,558,644</u>

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CITY OF MENTOR-ON-THE-LAKE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005

Total governmental fund balances		\$ 53,403
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,986,929
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 60,206	
Income taxes	143,127	
Charges for services	97,935	
Special assessments	60,157	
Intergovernmental revenues	<u>387,773</u>	
Total		749,198
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(332)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The City's long-term liabilities are:		
Compensated absences	(264,559)	
Special assessment bonds	(55,000)	
OPWC Notes	(424,403)	
Capital lease payable	<u>(15,563)</u>	
		<u>(759,525)</u>
Net assets of governmental activities		<u>\$ 3,029,673</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
Revenues:				
Property taxes	\$ 346,057	\$ 576,835	\$ 385,770	\$ 306,798
Municipal income taxes	704,050	-	-	-
Charges for services	468,827	-	-	-
Licenses and permits.	10,567	-	-	-
Fines and forfeitures	34,742	-	-	-
Intergovernmental	674,719	73,352	44,594	35,478
Special assessments	-	-	-	-
Investment income	30,308	1,523	2,434	2,643
Other	46,214	-	-	-
Total revenues	<u>2,315,484</u>	<u>651,710</u>	<u>432,798</u>	<u>344,919</u>
Expenditures:				
Current:				
General government	639,209	-	-	-
Security of persons and property	751,613	639,479	410,166	348,170
Public health and welfare	57,840	-	-	-
Transportation.	250,226	-	-	-
Leisure time activity.	43,897	-	-	-
Refuse services	286,325	-	-	-
Other	-	-	-	-
Capital outlay	62,325	-	-	-
Debt service:				
Principal retirement	7,511	-	-	-
Interest and fiscal charges	514	-	-	-
Total expenditures	<u>2,099,460</u>	<u>639,479</u>	<u>410,166</u>	<u>348,170</u>
Excess (deficiency) of revenues over (under) expenditures	<u>216,024</u>	<u>12,231</u>	<u>22,632</u>	<u>(3,251)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(197,030)	-	-	-
Loan issuance	-	-	-	-
Total other financing sources (uses).	<u>(197,030)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	18,994	12,231	22,632	(3,251)
Fund balances (deficit) at beginning of year (restated).	<u>387,001</u>	<u>(14,080)</u>	<u>16,534</u>	<u>14,074</u>
Fund balances (deficit) at end of year.	<u>\$ 405,995</u>	<u>\$ (1,849)</u>	<u>\$ 39,166</u>	<u>\$ 10,823</u>

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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Andrews Road Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 38,679	\$ 1,654,139
-	-	704,050
-	1,425	470,252
-	-	10,567
-	2,254	36,996
-	319,491	1,147,634
-	62,641	62,641
-	2,367	39,275
-	4,413	50,627
-	431,270	4,176,181
-	13,229	652,438
-	51,162	2,200,590
-	-	57,840
41,803	342,014	634,043
-	5,562	49,459
-	-	286,325
-	4,810	4,810
-	185,385	247,710
-	88,711	96,222
11,880	17,474	29,868
53,683	708,347	4,259,305
(53,683)	(277,077)	(83,124)
8,800	188,230	197,030
-	-	(197,030)
-	45,083	45,083
8,800	233,313	45,083
(44,883)	(43,764)	(38,041)
(260,118)	(51,967)	91,444
\$ (305,001)	\$ (95,731)	\$ 53,403

CITY OF MENTOR-ON-THE-LAKE, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds \$ (38,041)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$494,788) exceeded depreciation expense (\$145,338) in the current period. 349,450

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. (13,611)

The issuance of long-term notes are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (45,083)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 24,192

Repayment of bond, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 96,222

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 333

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (23,323)

Change in net assets of governmental activities \$ 350,139

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 331,278	\$ 345,278	\$ 346,057	\$ 779
Municipal income taxes	760,000	705,000	706,612	1,612
Charges for services	461,840	523,440	526,717	3,277
Licenses and permits.	8,500	8,500	10,687	2,187
Fines and forfeitures.	43,000	33,000	33,811	811
Intergovernmental	631,512	679,512	674,718	(4,794)
Investment income	13,000	24,000	30,308	6,308
Other	54,300	44,900	44,667	(233)
Total revenues.	<u>2,303,430</u>	<u>2,363,630</u>	<u>2,373,577</u>	<u>9,947</u>
Expenditures:				
Current:				
General government	665,670	665,670	621,162	44,508
Security of persons and property	782,310	782,310	752,961	29,349
Public health and welfare.	50,000	50,000	57,840	(7,840)
Transportation	282,420	282,420	264,165	18,255
Leisure time activity	54,830	54,830	43,908	10,922
Refuse services	288,380	288,380	285,645	2,735
Capital outlay.	187,996	187,996	163,165	24,831
Total expenditures	<u>2,311,606</u>	<u>2,311,606</u>	<u>2,188,846</u>	<u>122,760</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,176)</u>	<u>52,024</u>	<u>184,731</u>	<u>132,707</u>
Other financing sources (uses):				
Other financing sources	1,100	1,100	561	(539)
Other financing uses.	(27,150)	(27,150)	(22,416)	4,734
Transfers out	(191,980)	(197,030)	(197,030)	-
Total other financing sources (uses)	<u>(218,030)</u>	<u>(223,080)</u>	<u>(218,885)</u>	<u>4,195</u>
Net change in fund balance	(226,206)	(171,056)	(34,154)	136,902
Fund balance at beginning of year	370,154	370,154	370,154	-
Prior year encumbrances appropriated	<u>41,526</u>	<u>41,526</u>	<u>41,526</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 185,474</u>	<u>\$ 240,624</u>	<u>\$ 377,526</u>	<u>\$ 136,902</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 SAFETY FORCES LEVY
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 552,517	\$ 575,517	\$ 576,835	\$ 1,318
Intergovernmental	73,353	73,353	73,352	(1)
Investment income	1,200	1,200	1,523	323
Total revenues.	<u>627,070</u>	<u>650,070</u>	<u>651,710</u>	<u>1,640</u>
Expenditures:				
Current:				
Security of persons and property	<u>641,950</u>	<u>641,950</u>	<u>641,757</u>	<u>193</u>
Total expenditures	<u>641,950</u>	<u>641,950</u>	<u>641,757</u>	<u>193</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,880)</u>	<u>8,120</u>	<u>9,953</u>	<u>1,833</u>
Other financing uses:				
Other financing uses	<u>(6,050)</u>	<u>(6,650)</u>	<u>(6,589)</u>	<u>61</u>
Total other financing uses	<u>(6,050)</u>	<u>(6,650)</u>	<u>(6,589)</u>	<u>61</u>
Net change in fund balance	(20,930)	1,470	3,364	1,894
Fund balance at beginning of year	<u>21,330</u>	<u>21,330</u>	<u>21,330</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 400</u>	<u>\$ 22,800</u>	<u>\$ 24,694</u>	<u>\$ 1,894</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE LEVY
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 359,246	\$ 382,246	\$ 385,770	\$ 3,524
Intergovernmental	44,594	44,594	44,594	-
Investment income	600	600	2,434	1,834
Total revenues.	<u>404,440</u>	<u>427,440</u>	<u>432,798</u>	<u>5,358</u>
Expenditures:				
Current:				
Security of persons and property	426,074	426,074	405,225	20,849
Total expenditures	<u>426,074</u>	<u>426,074</u>	<u>405,225</u>	<u>20,849</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,634)</u>	<u>1,366</u>	<u>27,573</u>	<u>26,207</u>
Other financing sources (uses):				
Other financing sources.	-	-	248	248
Other financing uses	(5,300)	(5,300)	(5,611)	(311)
Total other financing sources (uses)	<u>(5,300)</u>	<u>(5,300)</u>	<u>(5,363)</u>	<u>(63)</u>
Net change in fund balance	(26,934)	(3,934)	22,210	26,144
Fund balance at beginning of year	24,988	24,988	24,988	-
Prior year encumbrances appropriated	<u>2,374</u>	<u>2,374</u>	<u>2,374</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 428</u>	<u>\$ 23,428</u>	<u>\$ 49,572</u>	<u>\$ 26,144</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FIRE LEVY
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 285,722	\$ 303,722	\$ 306,798	\$ 3,076
Intergovernmental	35,478	35,478	35,478	-
Investment income	900	900	2,643	1,743
Total revenues.	<u>322,100</u>	<u>340,100</u>	<u>344,919</u>	<u>4,819</u>
Expenditures:				
Current:				
Security of persons and property	<u>353,511</u>	<u>353,511</u>	<u>331,581</u>	<u>21,930</u>
Total expenditures	<u>353,511</u>	<u>353,511</u>	<u>331,581</u>	<u>21,930</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,411)</u>	<u>(13,411)</u>	<u>13,338</u>	<u>26,749</u>
Other financing uses:				
Other financing uses	<u>(4,200)</u>	<u>(4,200)</u>	<u>(4,714)</u>	<u>(514)</u>
Total other financing uses	<u>(4,200)</u>	<u>(4,200)</u>	<u>(4,714)</u>	<u>(514)</u>
Net change in fund balance	(35,611)	(17,611)	8,624	26,235
Fund balance at beginning of year	28,158	28,158	28,158	-
Prior year encumbrances appropriated	<u>7,711</u>	<u>7,711</u>	<u>7,711</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 258</u>	<u>\$ 18,258</u>	<u>\$ 44,493</u>	<u>\$ 26,235</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENTOR-ON-THE-LAKE, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2005**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 94,383
Total assets.	<u>\$ 94,383</u>
Liabilities:	
Undistributed monies	\$ 94,383
Total liabilities	<u>\$ 94,383</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Mentor-On-The-Lake, Ohio (the "City") functions as a home-rule City in accordance with Article XVIII of the Constitution of the State of Ohio under a city charter originally adopted on January 1, 1967. The City operates under a Council-Mayor form of government. The City provides the following services: public safety, highways and streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, and planning and zoning. Council and the City Manager are directly responsible for these activities. The accompanying financial statements present the City, which has no component units.

B. Basis of Presentation - Fund Accounting

The City's BFS consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

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

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

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

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

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

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

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no proprietary funds.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund includes refundable deposit accounts.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

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

E. Basis of Accounting

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund and department, (i.e. police) level, for the General fund and the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2005.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

G. Cash and Cash Equivalents

Cash balances of the City's funds are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2005 amounted to \$30,308, which included \$14,583 assigned from other funds of the City.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintained a capitalization threshold of \$3,500. The City's infrastructure consists of roads and storm sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Improvements to land	20 years
Buildings	30 - 50 years
Equipment	10 - 40 years
Vehicles	6 - 25 years
Infrastructure	25 - 50 years

I. Compensated Absences

The City follows the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences". Vacation and compensatory time benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time and compensatory time when earned for all employees with more than one year of service.

Sick leave benefits are accrued using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. There were no short term compensated absences payable at December 31, 2005. The noncurrent portion of the liability is not reported.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

M. Fund Balance Reserves

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

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, and debt service in the governmental fund financial statements.

N. Estimates

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of income tax distributions.

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

P. Extraordinary Item

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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and nonmajor governmental funds of the City as they were previously reported as of December 31, 2004:

	<u>General</u>	Safety Forces <u>Levy</u>	Police <u>Levy</u>	Fire <u>Levy</u>	Andrews <u>Road</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance							
December 31, 2004	\$ 411,529	\$ (14,080)	\$ 16,534	\$ 25,921	\$(260,118)	\$ (51,967)	\$ 127,819
GASB Technical Bulletin 2004-2	<u>(24,528)</u>	<u>\$ -</u>	<u>-</u>	<u>(11,847)</u>	<u>-</u>	<u>-</u>	<u>(36,375)</u>
Restated fund balance							
January 1, 2005	<u>\$ 387,001</u>	<u>\$ (14,080)</u>	<u>\$ 16,534</u>	<u>\$ 14,074</u>	<u>\$(260,118)</u>	<u>\$ (51,967)</u>	<u>\$ 91,444</u>

B. Restatement of Net Assets

The City has presented prior period adjustments to net assets to correct for errors in the calculation of accumulated depreciation as of December 31, 2004 and to include an OWDA note outstanding at December 31, 2004. See Note 8 for details regarding the affects on capital assets and see Note 10 for the effect on long-term liabilities. The prior period adjustments had the following effect on net assets previously reported as of December 31, 2004:

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Net Assets, December 31, 2004	\$ 2,704,486
Adjustment for accumulated depreciation	106,757
Adjustment for OPWC note payable	<u>(131,709)</u>
Restated net assets, January 1, 2005	<u>\$ 2,679,534</u>

C. Deficit Fund Balances

Fund balances at December 31, 2005, included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
Safety Forces Levy	\$ 1,849
Andrews Road Reconstruction	305,001
<u>Nonmajor Funds</u>	
Recreation capital projects	22,564
OPWC - Holly Drive	172,890
OPWC - Weber Area	67,441

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from bond anticipation notes being reported as fund liabilities rather than as on other financing sources.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio).

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

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of the transfer from the custodian.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2005, the carrying amount of all City deposits was \$880,387. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$295,909 of the City's bank balance of \$1,021,344 was exposed to custodial risk as discussed below, while \$725,435 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	<u>\$ 167,853</u>	<u>\$ 167,853</u>

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

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

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 167,853</u>	<u>100.00%</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 880,387
Investments	167,853
Cash on hand	<u>710</u>
Total	<u>\$ 1,048,950</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 954,567
Agency funds	<u>94,383</u>
Total	<u>\$ 1,048,950</u>

NOTE 5 - TAXES

A. Property Taxes

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

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, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005, was \$24.00 per \$1,000 of assessed value. The assessed value for 2005 was \$143,079,703. This amount constitutes \$136,174,860 in real property assessed value, \$4,202,270 in public utility assessed value and \$2,702,573 in tangible personal property assessed value.

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

B. Income Tax

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

Employers within the City are required to withhold income tax on employee's compensation and remit the tax to the City either monthly or quarterly. Corporation and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue is credited to the general fund. Income tax revenue for 2005 was \$704,050 as reported in the fund financial statements.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2005, as well as intended to finance fiscal 2005 operations.

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

Governmental Activities:

Property taxes	\$1,866,498
Income taxes	189,193
Accounts	28,029
Special assessments	60,157
Intergovernmental	444,860

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental Funds from:	
General Fund	\$ 188,230
Transfers to Andrews Road Reconstruction fund from:	
General Fund	<u>8,800</u>
Total	<u><u>\$ 197,030</u></u>

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

NOTE 8 - CAPITAL ASSETS

- A. The City has presented a restatement of capital assets to correct for an error in the calculation of accumulated depreciation in the previous year. See Note 3.B. for the restatement of net assets. The adjustment had the following effect on capital assets as previously reported at December 31, 2004:

	Balance		Restated
	<u>12/31/04</u>	<u>Adjustments</u>	<u>12/31/05</u>
<u>Governmental Activities:</u>			
Capital assets, not being depreciated	\$ 731,996	\$ -	\$ 731,996
Capital assets, depreciated	2,733,634	-	2,733,634
<i>Accumulated Depreciation:</i>			
Land improvements	(5,192)	-	(5,192)
Buildings	(289,064)	13,833	(275,231)
Furniture, fixtures and equipment	(152,875)	67,549	(85,326)
Vehicles	(463,983)	25,375	(438,608)
Infrastructure	<u>(10,183)</u>	<u>-</u>	<u>(10,183)</u>
Accumulated depreciation	<u>(921,297)</u>	<u>106,757</u>	<u>(814,540)</u>
Capital assets, net	<u><u>\$ 2,544,333</u></u>	<u><u>\$ 106,757</u></u>	<u><u>\$ 2,651,090</u></u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Governmental Activities:</u>	Restated Balance <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 382,579	\$ 110,000	\$ -	\$ 492,579
Construction in progress	<u>349,417</u>	<u>72,616</u>	<u>(140,031)</u>	<u>282,002</u>
Total capital assets, not being depreciated	<u>731,996</u>	<u>182,616</u>	<u>(140,031)</u>	<u>774,581</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	124,613	-	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	342,526	47,584	-	390,110
Vehicles	1,100,802	44,736	(45,446)	1,100,092
Infrastructure:				
Roads	131,003	195,684	-	326,687
Storm sewers	<u>434,590</u>	<u>164,199</u>	<u>-</u>	<u>598,789</u>
Total capital assets, being depreciated	<u>2,733,634</u>	<u>452,203</u>	<u>(45,446)</u>	<u>3,140,391</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(5,192)	(6,231)	-	(11,423)
Buildings	(275,231)	(13,833)	-	(289,064)
Furniture, fixtures and equipment	(85,326)	(19,128)	-	(104,454)
Vehicles	(438,608)	(82,070)	31,835	(488,843)
Infrastructure:				
Roads	(5,903)	(13,495)	-	(19,398)
Storm sewers	<u>(4,280)</u>	<u>(10,581)</u>	<u>-</u>	<u>(14,861)</u>
Total accumulated depreciation	<u>(814,540)</u>	<u>(145,338)</u>	<u>31,835</u>	<u>(928,043)</u>
Total capital assets, being depreciated, net	<u>1,919,094</u>	<u>306,865</u>	<u>(13,611)</u>	<u>2,212,348</u>
Governmental activities capital assets, net	<u>\$ 2,651,090</u>	<u>\$ 489,481</u>	<u>\$ (153,642)</u>	<u>\$ 2,986,929</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 9,617
Security of persons and property	98,038
Transportation	31,452
Leisure time activities	<u>6,231</u>
Total depreciation expense - governmental activities	<u>\$ 145,338</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized on the statement of net assets in the amount of \$38,375. This amount represents the present value of the minimum lease payments at the time of the acquisitions. A corresponding liability of \$15,563 was recorded in the statement of net assets. Principal payments in fiscal year 2005 totaled \$7,511 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, 2005:

<u>Year Ending</u> <u>December 31,</u>	<u>Skid Steer</u>	911 <u>Recording</u> <u>System</u>	<u>Total</u>
2006	\$ 4,677	\$ 1,953	\$ 6,630
2007	4,677	-	4,677
2008	<u>4,677</u>	<u>-</u>	<u>4,677</u>
Total future minimum lease payments	14,031	1,953	15,984
Less: amount representing interest	<u>(365)</u>	<u>(56)</u>	<u>(421)</u>
Present value of net minimum lease payments	<u>\$ 13,666</u>	<u>\$ 1,897</u>	<u>\$ 15,563</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

- A. Long-term obligations as of December 31, 2004 have been restated to include an OPWC note issued during 2004 for \$131,709. The restatement increased long-term liabilities from \$655,632 to \$787,341. See Note 3.B. for the restatement of net assets. During the fiscal year 2005, the following changes occurred in the City's governmental activities long-term obligations:

Governmental Activities:	<u>Interest</u>	<u>Restated</u>			<u>Balance at</u>	<u>Amounts</u>
	<u>Rate</u>	<u>Balance at</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>	<u>Due in</u>
		<u>12/31/04</u>				<u>One Year</u>
Special Assessment Bonds:						
Lakeway Street Improvement	7.25%	\$ 110,000	\$ -	\$ (55,000)	\$ 55,000	\$ 55,000
Total special assessment bonds		<u>\$ 110,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ 55,000</u>	<u>\$ 55,000</u>
OPWC Notes:						
1996 15 year						
OPWC 93 (Salida Rd.)	0%	\$ 66,097	\$ -	\$ (11,017)	\$ 55,080	\$ 11,017
1996 20 year						
OPWC 94 (Harbor Creek)	0%	98,975	-	(8,608)	90,367	8,608
1996 20 year						
OPWC 99 (Reynolds Rd.)	0%	116,250	-	(7,500)	108,750	7,500
2004 20 year						
OPWC 05 (Holly Dr.)	0%	131,709	-	(6,586)	125,123	6,586
2005 - 20 year						
OPWC 05 (Weber Area)	0%	-	45,083	-	45,083	2,505
Total OPWC notes		<u>\$ 413,031</u>	<u>\$ 45,083</u>	<u>\$ (33,711)</u>	<u>\$ 424,403</u>	<u>\$ 36,216</u>
Other Long-Term Obligations:						
Compensated absences	N/A	\$ 241,236	\$ 137,436	\$ (114,113)	\$ 264,559	\$ 115,180
Capital lease obligations		<u>23,074</u>	<u>-</u>	<u>(7,511)</u>	<u>15,563</u>	<u>6,408</u>
Total other long-term obligations		<u>\$ 264,310</u>	<u>\$ 137,436</u>	<u>\$ (121,624)</u>	<u>\$ 280,122</u>	<u>\$ 121,588</u>
Total governmental activities						
long-term obligations		<u>\$ 787,341</u>	<u>\$ 182,519</u>	<u>\$ (210,335)</u>	<u>\$ 759,525</u>	<u>\$ 212,804</u>

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

Compensated Absences: Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid.

Capital Lease Obligation: The City currently has two capital leases, see Note 9 for details.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

OPWC Notes: The City has entered into five debt financing arrangements through the Ohio Public Works Commission (OPWC). These notes are to fund various street improvements. The amounts due to the OPWC are payable solely from operating revenues. The loan agreements function similar to a line-of-credit agreement. The entire loan for the Weber Area project has not been disbursed as of December 31, 2005, however, the payment schedule for the entire loan amount of \$50,100 is reflected in the future debt service schedule below. Each of the OPWC loans are being repaid from debt service fund. The loan agreements require semi-annual payments based on the actual amount loaned. The OPWC loans are interest free.

Principal and interest requirements to retire long-term bond and note obligations outstanding at December 31, 2005 are as follows:

<u>Year</u>	<u>Special Assessment Bonds</u>		<u>OPWC Notes</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2006	\$ 55,000	\$ 3,988	\$ 36,216
2007	-	-	36,216
2008	-	-	36,216
2009	-	-	36,216
2010	-	-	36,216
2011 - 2015	-	-	125,995
2016 - 2020	-	-	83,509
2021 - 2025	-	-	<u>38,836</u>
Total	<u>\$ 55,000</u>	<u>\$ 3,988</u>	<u>\$ 429,420</u>

B. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$15,063,119 and \$7,909,134, respectively, at December 31, 2005.

NOTE 11 - NOTES PAYABLE

The City had the following outstanding bond anticipation notes at December 31, 2005:

	<u>Interest Rate</u>	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>
Various Purpose Improvements					
Bond Anticipation Notes	2.00%	\$ 880,000	\$ -	\$ (880,000)	\$ -
Various Purpose Improvements					
Bond Anticipation Notes	3.4%	-	<u>740,000</u>	-	<u>740,000</u>
Total Notes Payable		<u>\$ 880,000</u>	<u>\$ 740,000</u>	<u>\$ (880,000)</u>	<u>\$ 740,000</u>

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 11 - NOTES PAYABLE - (Continued)

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. During 2004 a portion of the note related to purchase of the library building was retired and a new amount was issued for the improvement of the Weber Area Storm Sewer. During 2005, the notes outstanding of \$880,000 were reissued, the Reynolds Road portion of the notes, for \$140,000, was retired and the City reissued \$740,000. The proceeds were recorded in the Capital Projects funds. The notes have a 3.4% interest rate and are scheduled to mature on June 30, 2006.

NOTE 12 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to established 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) 222-6705.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 8.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$139,840, \$134,508, and \$132,810, respectively; 100% has been contributed for 2004 and 2003, and 90% has been contributed for 2005, with \$13,456 representing the unpaid portion which is recorded as a liability in respective funds from which employees are paid. The City and plan members did not make any contributions to the member-directed plan for 2005.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 - PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ended December 31, 2005, 2004, and 2003 were \$176,672, \$154,520, and \$155,762 respectively; 74% has been contributed for 2005 and 100% for the years 2004 and 2003. \$45,435, represents the unpaid portion of which is reported as a liability in the respective funds.

NOTE 13 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The number of active contributing participants in the traditional and combined plans was 369,885 as of December 31, 2005. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$52,154. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS's health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. 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 2005 that were used to fund postemployment benefits was \$71,741 for police and \$209,493 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,662 for police and 10,474 for firefighters.

CITY OF MENTOR-ON-THE-LAKE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

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

B. Compensated Absences

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

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

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

NOTE 15 - CONTINGENCIES

A. Grants

The City receives financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

B. Litigation

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

CITY OF MENTOR-ON-THE-LAKE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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. 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.

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

Net Change in Fund Balance

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
Budget basis	\$ (34,154)	\$ 3,364	\$ 22,210	\$ 8,624
Net adjustment for revenue accruals	(58,093)	-	-	-
Net adjustment for expenditure accruals	(10,482)	2,278	(10,419)	(26,375)
Net adjustment for other sources/uses	21,855	6,589	5,363	4,714
Adjustment for encumbrances	<u>99,868</u>	<u>-</u>	<u>5,478</u>	<u>9,786</u>
GAAP basis	<u>\$ 18,994</u>	<u>\$ 12,231</u>	<u>\$ 22,632</u>	<u>\$ (3,251)</u>



Julian & Grube, Inc.

Serving Ohio Local Governments

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

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

We have audited the financial statements consisting of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County, Ohio (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2006. As disclosed in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-002 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers" for the year ended December 31, 2005. In addition, as disclosed in Note 3B., the City has restated net assets due to errors and omissions related to accumulated depreciation and OPWC note payable. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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.

Members of Council and Mayor
City of Mentor-On-The-Lake
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 5, 2006



**Auditor of State
Betty Montgomery**

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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 11, 2006**