

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

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

For The Year Ended  
December 31, 2007

**MR. KIP MOLENAAR, ADMINISTRATIVE DIRECTOR**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Mentor-on-the-Lake, Lake County, prepared by Julian & Grube, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 20, 2008

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

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis.....	3 - 15
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	16
Statement of Activities.....	17 - 18
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	19 - 20
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	22 - 23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	24
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	25
Safety Forces Levy .....	26
Police Levy .....	27
Fire Levy.....	28
Statement of Fiduciary Net Assets - Fiduciary Fund .....	29
Notes to the Basic Financial Statements .....	30 - 53
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	54 - 55
Status of Prior Audit Findings .....	56

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's 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, as of and for the year ended December 31, 2007, which collectively comprise the City of Mentor-On-The-Lake's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mentor-On-The-Lake'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, 2007, and the respective changes in financial position, and the respective budgetary comparison for the general fund and major special revenue funds: safety forces levy, police levy and fire levy for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2008, on our consideration of the City of Mentor-On-The-Lake'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 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.

*Julian & Grube, Inc.*

Julian & Grube, Inc  
May 20, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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 2007 are as follows:

- The total net assets of the City increased \$1,021,275.
- General revenues accounted for \$3,489,884 or 68.54% of total governmental activities revenue. Program specific revenues accounted for \$1,602,215 or 31.46% of total governmental activities revenue of \$5,092,099.
- The City had \$4,070,824 in expenses related to governmental activities; \$1,602,215 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,468,609 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,489,884.
- The City had five major funds consisting of the general fund, safety forces levy fund, police levy fund, fire levy fund, and Andrews Road construction fund.
- The general fund had revenues of \$2,454,596 in 2007. This represents a decrease of \$72,288 from 2006 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$2,530,091 in 2007, increased \$196,367 from 2006. The net decrease in fund balance for the general fund was \$75,495 or 12.60%.
- The safety forces levy fund had revenues of \$694,807 in 2007, which is an increase of \$51,256 from 2006 revenues. The expenditures in the safety forces levy fund totaled \$703,877 in 2007, which increased \$52,526 from 2006. The net decrease in fund balance was \$9,070, resulting in an ending fund deficit of \$18,719.
- The police levy fund had revenues of \$420,772, which is a decrease of \$9,359 from 2006 revenues. The expenditures totaled \$375,133 in 2007, which decreased \$108,803 from 2006 expenditures. The net increase in fund balance was \$45,639, resulting in an ending fund balance of \$31,000.
- The fire levy fund had revenues of \$338,489, which is a decrease of \$5,645 from 2006 revenues. The expenditures totaled \$326,247 in 2007, which decreased \$33,992 from 2006 expenditures. The net increase in fund balance was \$12,242, resulting in an ending fund balance of \$6,960.
- The Andrews Road construction fund had revenues and other financing sources of \$827,725, which is an increase of \$692,765 from 2006 revenues and other financing sources. The expenditures totaled \$762,105 which is an increase of \$230,843 from 2006 expenditures. The net increase in fund balance was \$65,620, resulting in an ending fund deficit of \$635,683.
- In the general fund, the actual revenues and other financing sources came in \$23,931 higher than they were in the final budget and actual expenditures and other financing uses were \$185,977 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. The final budget revenues and other financing sources came in \$18,090 higher than they were in the original budget and final budget expenditures and other financing uses were unchanged from the original budget.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**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 2007?" 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 - All of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes, special assessments, and intergovernmental revenues including Federal and State grants and other shared revenues.

The City's statement of net assets and statement of activities can be found on pages 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  
LAKE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

***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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2007 and 2006.

	<b>Net Assets</b>	
	2007	2006
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
<u>Assets</u>		
Current and other assets	\$ 3,983,141	\$ 3,879,218
Capital assets, net	<u>4,557,839</u>	<u>3,661,778</u>
Total assets	<u>8,540,980</u>	<u>7,540,996</u>
<u>Liabilities</u>		
Current liabilities	3,161,388	3,288,092
Long-term liabilities	<u>826,485</u>	<u>721,072</u>
Total liabilities	<u>3,987,873</u>	<u>4,009,164</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,150,753	3,264,185
Restricted	378,305	315,734
Unrestricted (deficit)	<u>1,024,049</u>	<u>(48,087)</u>
Total net assets	<u>\$ 4,553,107</u>	<u>\$ 3,531,832</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$4,553,107. At year-end, unrestricted net assets were \$1,024,049.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 53.36% of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2007, were \$3,150,753 for governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$378,305 represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets is \$1,024,049.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

The table below shows the changes in net assets for fiscal year 2007 and 2006.

	<b>Change in Net Assets</b>	
	2007	2006
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 641,535	\$ 575,104
Operating grants and contributions	312,999	525,351
Capital grants and contributions	<u>647,681</u>	<u>87,227</u>
Total program revenues	<u>1,602,215</u>	<u>1,187,682</u>
General revenues:		
Property taxes	1,737,472	1,686,364
Income taxes	781,779	770,140
Unrestricted grants and entitlements	865,788	860,077
Investment earnings	48,693	57,411
Miscellaneous	<u>56,152</u>	<u>17,138</u>
Total general revenues	<u>3,489,884</u>	<u>3,391,130</u>
Total revenues	<u>5,092,099</u>	<u>4,578,812</u>
<b>Expenses:</b>		
General government	629,162	646,641
Security of persons and property	2,388,315	2,416,836
Public health and welfare	65,819	71,136
Transportation	605,399	546,309
Leisure time activity	54,358	56,406
Refuse services	285,393	297,774
Other	2,318	3,841
Interest and fiscal charges	<u>40,060</u>	<u>37,710</u>
Total expenses	<u>4,070,824</u>	<u>4,076,653</u>
Change in net assets	1,021,275	502,159
Net assets at beginning of year	<u>3,531,832</u>	<u>3,029,673</u>
Net assets at end of year	<u>\$ 4,553,107</u>	<u>\$ 3,531,832</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Governmental Activities**

Governmental activities net assets increased \$1,021,275 in 2007. This increase is primarily due to increased capital grants and contributions for 2007 versus 2006 coupled with 2007 expenses remaining consistent with 2006.

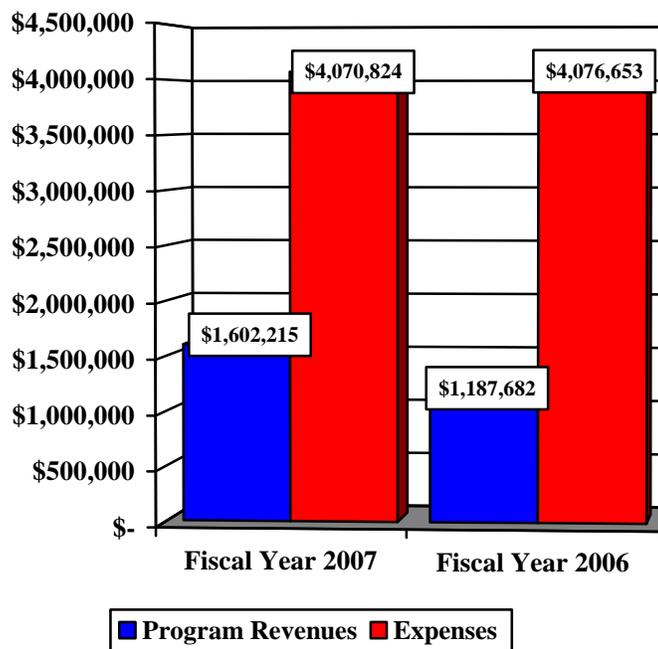
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,388,315 which accounted for 58.67% of the total expenses of the City. These expenses were partially funded by \$152,190 in direct charges to users of the services and \$11,826 in operating grants and contributions. General government expenses totaled \$629,162 which was partially funded by \$172,827 in direct charges to users of the services, \$2,363 in operating grants and contributions and \$2,681 in capital grants and contributions.

The state and federal government contributed to the City a total of \$312,999 in operating grants and contributions and \$647,681 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the capital grants and contributions received \$645,000 subsidized transportation programs.

General revenues totaled \$3,489,884, and amounted to 68.54% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,519,251. 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 \$865,788.

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  
LAKE COUNTY, OHIO**

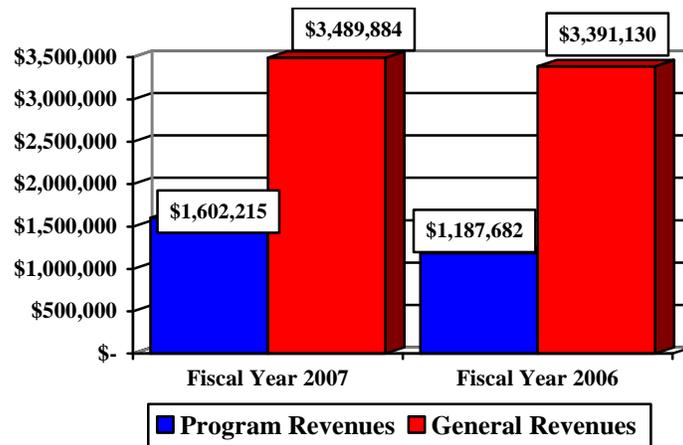
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Governmental Activities**

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses:				
General government	\$ 629,162	\$ 451,291	\$ 646,641	\$ 533,180
Security of persons and property	2,388,315	2,224,299	2,416,836	2,256,047
Public health and welfare	65,819	44,945	71,136	46,222
Transportation	605,399	(339,296)	546,309	(42,506)
Leisure time activity	54,358	52,838	56,406	54,366
Utility services	285,393	(7,846)	297,774	111
Other	2,318	2,318	3,841	3,841
Interest and fiscal charges	<u>40,060</u>	<u>40,060</u>	<u>37,710</u>	<u>37,710</u>
Total expenses	<u>\$ 4,070,824</u>	<u>\$ 2,468,609</u>	<u>\$ 4,076,653</u>	<u>\$ 2,888,971</u>

The dependence upon general revenues for governmental activities is apparent, with 60.64% 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  
LAKE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

***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 \$29,204 which is \$140,302 greater than last year's deficit total of \$111,098. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2007 for all major and nonmajor governmental funds.

	Fund Balances/ (Deficits) <u>12/31/07</u>	Fund Balances/ (Deficits) <u>12/31/06</u>	Increase (Decrease) <u></u>
Major funds:			
General	\$ 523,660	\$ 599,155	\$ (75,495)
Safety forces levy	(18,719)	(9,649)	(9,070)
Police levy	31,000	(14,639)	45,639
Fire levy	6,960	(5,282)	12,242
Andrews Road construction	(635,683)	(701,303)	65,620
Other nonmajor governmental funds	<u>121,986</u>	<u>20,620</u>	<u>101,366</u>
Total	<u>\$ 29,204</u>	<u>\$ (111,098)</u>	<u>\$ 140,302</u>

***General Fund***

The City's general fund balance decreased \$75,495, primarily due to a decrease in revenues and an increase in expenditures. The table that follows assists in illustrating the revenues of the general fund.

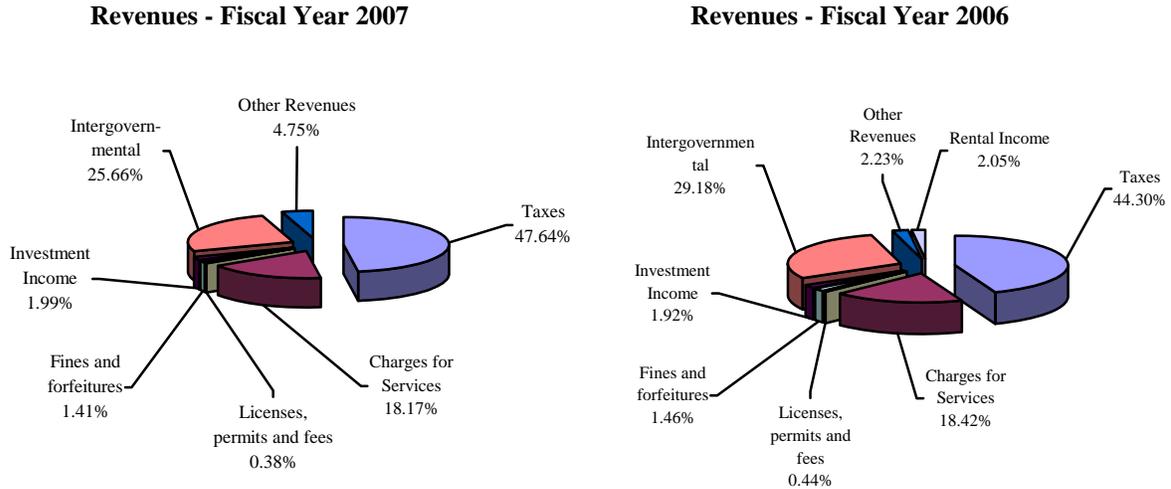
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 1,169,362	\$ 1,118,849	4.51 %
Charges for services	445,858	465,315	(4.18) %
Licenses, permits and fees	9,353	11,105	(15.78) %
Fines and forfeitures	34,642	36,854	(6.00) %
Intergovernmental	629,961	736,954	(14.52) %
Investment income	48,693	48,614	0.16 %
Rental income	-	51,900	(100.00) %
Other	<u>116,727</u>	<u>56,258</u>	107.49 %
Total	<u>\$ 2,454,596</u>	<u>\$ 2,525,849</u>	(2.82) %

Tax revenue represents 47.64% of all general fund revenue. Income and property tax revenues increased during 2007. Intergovernmental revenue decreased primarily due to a decrease in grants and estate taxes. All other revenue remained comparable to 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

The following graphs show the breakdown of general fund revenues for 2007 and 2006.



The table that follows assists in illustrating the expenditures of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 615,481	\$ 604,014	1.90 %
Security of persons and property	827,233	727,430	13.72 %
Public health and welfare	65,429	69,667	(6.08) %
Transportation	399,295	292,962	36.30 %
Leisure time activity	39,513	39,456	0.14 %
Refuse services	285,393	297,774	(4.16) %
Capital outlay	129,069	123,160	4.80 %
Debt activity	4,678	6,631	(29.45) %
<b>Total</b>	<u>\$ 2,366,091</u>	<u>\$ 2,161,094</u>	9.49 %

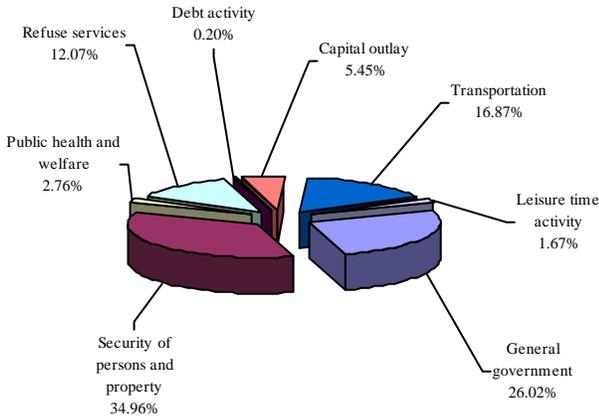
The most significant increase was in the area of transportation. This increase is primarily due to increased road maintenance expenditures during 2007. Security of persons and property expenditures increased in the general fund due to an increase in wages and benefits during 2007. All other expenditures remained comparable to 2006.

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

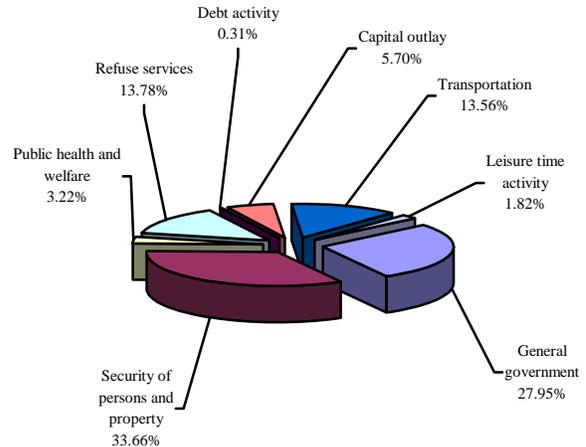
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

The following graphs show the breakdown of general fund expenditures for 2007 and 2006.

**Expenditures - Fiscal Year 2007**



**Expenditures - Fiscal Year 2006**



***Safety Forces Levy Fund***

The City's safety forces levy fund, fund balance decreased \$9,070, primarily due to increased expenditures. Revenues increased from \$643,551 in 2006 to \$694,807 in 2007. Revenues consist primarily of property tax revenues which are generated by a 4.5 mil tax levy. Expenditures increased from \$651,351 in 2006 to \$703,877 in 2007.

***Police Levy Fund***

The City's police levy fund's fund balance increased \$45,639, primarily due to decreased expenditures. Revenues decreased from \$430,131 in 2006 to \$420,772 in 2007. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$483,936 in 2006 to \$375,133 in 2007.

***Fire Levy Fund***

The City's fire levy fund's fund balance increased \$12,242 primarily due to decreased expenditures. Revenues decreased from \$344,134 in 2006 to \$338,489 in 2007. Revenues consist primarily of property tax revenues generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$360,239 in 2006 to \$326,247 in 2007.

***Andrews Road Construction Fund***

The City's Andrews Road construction fund's fund deficit decreased \$65,620. The fund had increased construction expenditures, intergovernmental revenues and loan proceeds in 2007 versus 2006. Revenues and other financing sources increased \$692,765 from 2006 due to OPWC grants and loans received in 2007. Expenditures increased from \$531,262 in 2006 to \$762,105 in 2007 as construction continued on the project.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007

***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 \$2,387,301 were more than final budgeted revenues and other financing sources by \$23,931. Actual expenditures and other financing uses of \$2,581,705 came in \$185,977 lower than the final budgeted amounts.

**Capital Assets and Debt Administration**

***Capital Assets***

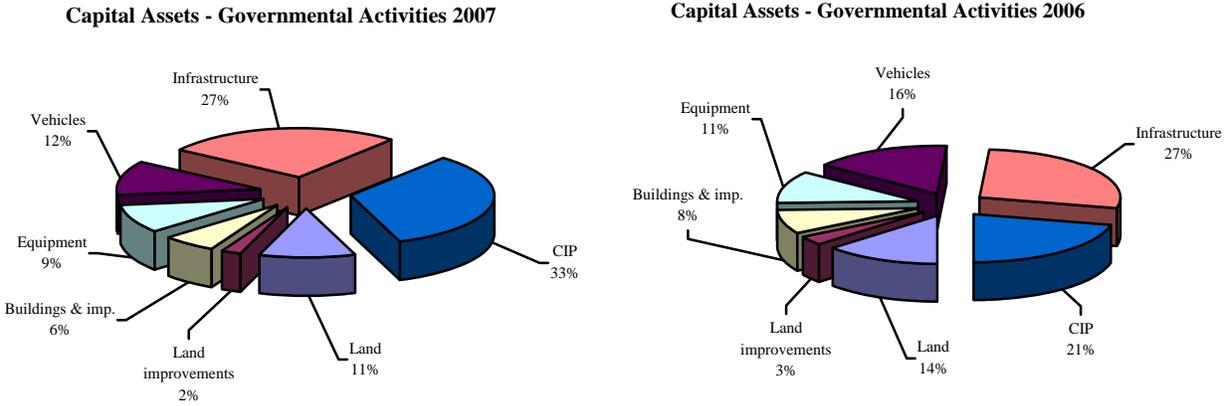
At the end of fiscal 2007, the City had \$4,557,839 (net of accumulated depreciation) invested in land, buildings, land improvements, furniture, fixtures and equipment, vehicles, infrastructure and construction in progress. The following table shows fiscal 2007 balances compared to 2006:

<b>Capital Assets at December 31 (Net of Depreciation)</b>		
<u>Governmental Activities</u>		
	<u>2007</u>	<u>2006</u>
Land	\$ 495,279	\$ 495,279
Construction-in-progress	1,519,083	786,671
Land improvements	100,728	106,959
Buildings	283,370	297,203
Furniture, fixtures and equipment	421,211	394,050
Vehicles	527,412	575,364
Infrastructure	<u>1,210,756</u>	<u>1,006,252</u>
Totals	<u>\$ 4,557,839</u>	<u>\$ 3,661,778</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

The following graphs show the breakdown of governmental capital assets by category for 2007 and 2006.

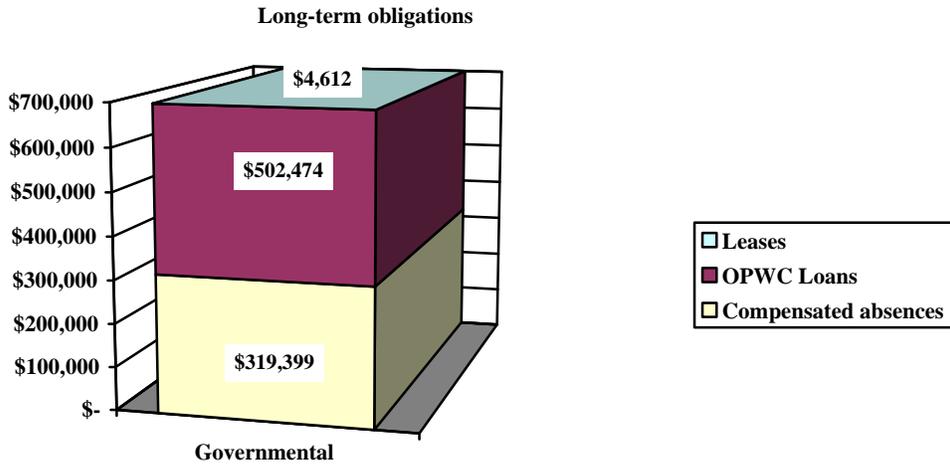


**Debt Administration**

The City had the following long-term obligations outstanding at December 31, 2007 and 2006. See Note 11 for details regarding the City's long-term liabilities.

	<u>2007</u>	<u>2006</u>
Compensated absences	\$ 319,399	\$ 323,479
Capital lease obligation payable	4,612	9,155
OPWC loans	<u>502,474</u>	<u>388,438</u>
Total long-term obligations	<u>\$ 826,485</u>	<u>\$ 721,072</u>

A comparison of the long-term obligations of 2007 by category is depicted in the chart below.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Economic Conditions and Outlook**

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

For fiscal year 2007, a new Governor was elected and he established a new formula for Local Government Funds which provided a modest growth in revenues for 2007; Local Government Funds have been frozen since fiscal year 2002. However, the new formula is tied to all State of Ohio revenues which in times of poor economic growth will result in fewer funds received by the City. The current forecast for the economy of Ohio is flat at best and, until the oil crisis is solved on the national level, increases in future Local Government Funds, which represent approximately 22% of the City's general fund, will remain flat or, at best, increase slightly.

Also a concern due to the oil crisis is a reduction in gasoline usage, which is a tax revenue source for maintenance of State highways that run through the City; we have two State Routes, SR 283 and SR 615. A reduction in gasoline taxes has a direct effect on the license plate tax revenues also. The gasoline and license plate revenues for the first quarter of fiscal year 2008 are within budgeted revenues; however, a conservative watch will be needed.

The City of Mentor-on-the-Lake's largest infrastructure project, the reconstruction of SR 283 (Andrews Road and Lake Shore Blvd.) started in fiscal year 2007 and is scheduled to be completed by the end of fiscal year 2008. The estimated budget is \$8 million, with the City contributing \$1.5 million as its local share. The balance of the funding has come from Federal dollars and assistance from NOACA and the State of Ohio through its SIB Loan Program. When complete, Andrews Road the City's main artery, will have storm sewers, concrete street and gutters, with a third lane being added in the City's business district.

The next fiscal year will continue to be budgeted on a very conservative basis until all costs are known for the reconstruction of SR 283 Project and a very watchful eye will be kept on the condition of the economy for the State of Ohio.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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.

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**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 1,126,604
Receivables (net of allowances for uncollectibles):	
Property taxes . . . . .	1,969,608
Income taxes . . . . .	190,657
Accounts . . . . .	122,700
Intergovernmental . . . . .	553,291
Special assessments. . . . .	6,257
Prepayments . . . . .	14,024
Capital assets:	
Land and construction-in-progress . . . . .	2,014,362
Depreciable capital assets, net. . . . .	2,543,477
Total capital assets, net . . . . .	<u>4,557,839</u>
 Total assets. . . . .	 <u>8,540,980</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	41,878
Accrued wages and benefits . . . . .	88,084
Due to other governments . . . . .	50,258
Pension obligation . . . . .	66,617
Unearned revenue. . . . .	1,995,875
Accrued interest payable. . . . .	18,676
Bond anticipation notes payable. . . . .	900,000
Long-term liabilities:	
Due within one year . . . . .	168,913
Due in more than one year . . . . .	657,572
 Total liabilities . . . . .	 <u>3,987,873</u>
<b>Net assets:</b>	
Invested in capital assets, net of related debt . . . . .	3,150,753
Restricted for:	
Debt service . . . . .	38,275
Street construction, maintenance and repairs. . . . .	169,561
Fire and safety services. . . . .	143,527
Other purposes . . . . .	26,942
Unrestricted. . . . .	1,024,049
 Total net assets . . . . .	 <u>\$ 4,553,107</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government . . . . .	\$ 629,162	\$ 172,827	\$ 2,363	\$ 2,681
Security of persons and property . . . . .	2,388,315	152,190	11,826	-
Public health and welfare. . . . .	65,819	20,874	-	-
Transportation . . . . .	605,399	885	298,810	645,000
Leisure time activity . . . . .	54,358	1,520	-	-
Refuse services . . . . .	285,393	293,239	-	-
Other . . . . .	2,318	-	-	-
Interest and fiscal charges. . . . .	40,060	-	-	-
	\$ 4,070,824	\$ 641,535	\$ 312,999	\$ 647,681
Total governmental activities . . . . .	\$ 4,070,824	\$ 641,535	\$ 312,999	\$ 647,681

**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. . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

\$	(451,291)
	(2,224,299)
	(44,945)
	339,296
	(52,838)
	7,846
	(2,318)
	(40,060)
	<hr/>
	(2,468,609)
	<hr/>
	374,345
	352
	1,362,775
	<hr/>
	781,779
	865,788
	48,693
	56,152
	<hr/>
	3,489,884
	<hr/>
	1,021,275
	<hr/>
	3,531,832
	<hr/>
\$	<u>4,553,107</u>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

	<b>General</b>	<b>Safety Forces Levy</b>	<b>Police Levy</b>	<b>Fire Levy</b>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 498,740	\$ 24,932	\$ 33,287	\$ 38,855
Receivables (net of allowance for uncollectibles):				
Property taxes . . . . .	425,935	710,525	435,972	346,749
Income taxes . . . . .	190,657	-	-	-
Accounts . . . . .	122,400	-	-	-
Intergovernmental . . . . .	303,369	43,187	22,063	17,561
Special assessments . . . . .	-	-	-	-
Prepayments . . . . .	10,514	-	2,833	650
	<u>\$ 1,551,615</u>	<u>\$ 778,644</u>	<u>\$ 494,155</u>	<u>\$ 403,815</u>
<b>Total assets . . . . .</b>	<u>\$ 1,551,615</u>	<u>\$ 778,644</u>	<u>\$ 494,155</u>	<u>\$ 403,815</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 40,372	\$ -	\$ 303	\$ 793
Accrued wages and benefits . . . . .	25,587	43,651	2,089	4,244
Due to other governments . . . . .	34,335	-	-	10,258
Pension obligation . . . . .	41,804	-	2,728	17,250
Deferred revenue . . . . .	479,984	77,291	46,955	37,349
Unearned revenue . . . . .	405,873	676,421	411,080	326,961
Accrued interest payable . . . . .	-	-	-	-
Bond anticipation notes payable . . . . .	-	-	-	-
	<u>1,027,955</u>	<u>797,363</u>	<u>463,155</u>	<u>396,855</u>
<b>Total liabilities . . . . .</b>	<u>1,027,955</u>	<u>797,363</u>	<u>463,155</u>	<u>396,855</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	49,832	-	-	6,417
Reserved for prepayments . . . . .	10,514	-	2,833	650
Reserved for debt service . . . . .	-	-	-	-
Unreserved, undesignated (deficit) reported in:				
General fund . . . . .	463,314	-	-	-
Special revenue funds . . . . .	-	(18,719)	28,167	(107)
Capital projects funds . . . . .	-	-	-	-
	<u>523,660</u>	<u>(18,719)</u>	<u>31,000</u>	<u>6,960</u>
<b>Total fund balances (deficits) . . . . .</b>	<u>523,660</u>	<u>(18,719)</u>	<u>31,000</u>	<u>6,960</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 1,551,615</u>	<u>\$ 778,644</u>	<u>\$ 494,155</u>	<u>\$ 403,815</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Andrews Road Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 150,401	\$ 380,389	\$ 1,126,604
-	50,427	1,969,608
-	-	190,657
-	300	122,700
-	167,111	553,291
-	6,257	6,257
-	27	14,024
<u>\$ 150,401</u>	<u>\$ 604,511</u>	<u>\$ 3,983,141</u>
\$ 106	\$ 304	\$ 41,878
-	12,513	88,084
-	5,665	50,258
-	4,835	66,617
-	150,970	792,549
-	175,540	1,995,875
15,978	2,698	18,676
770,000	130,000	900,000
<u>786,084</u>	<u>482,525</u>	<u>3,953,937</u>
23,117	7,195	86,561
-	27	14,024
-	32,018	32,018
-	-	463,314
-	123,224	132,565
(658,800)	(40,478)	(699,278)
<u>(635,683)</u>	<u>121,986</u>	<u>29,204</u>
<u>\$ 150,401</u>	<u>\$ 604,511</u>	<u>\$ 3,983,141</u>

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2007

<b>Total governmental fund balances</b>		\$	29,204
 <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.			4,557,839
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes	\$	101,120	
Income taxes		126,147	
Charges for services		75,548	
Special assessments		6,257	
Intergovernmental revenues		<u>483,477</u>	
Total			792,549
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		(319,399)	
OPWC loans		(502,474)	
Capital lease payable		<u>(4,612)</u>	
			<u>(826,485)</u>
<b>Net assets of governmental activities</b>		<u>\$</u>	<u>4,553,107</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>	<u>Fire Levy</u>
<b>Revenues:</b>				
Property taxes . . . . .	\$ 373,286	\$ 622,614	\$ 380,044	\$ 304,728
Municipal income taxes . . . . .	796,076	-	-	-
Charges for services . . . . .	445,858	-	-	-
Licenses and permits. . . . .	9,353	-	-	-
Fines and forfeitures . . . . .	34,642	-	-	-
Intergovernmental . . . . .	629,961	70,211	39,063	31,082
Special assessments . . . . .	-	-	-	-
Investment income . . . . .	48,693	1,982	1,665	2,679
Lease income . . . . .	-	-	-	-
Other . . . . .	116,727	-	-	-
Total revenues . . . . .	<u>2,454,596</u>	<u>694,807</u>	<u>420,772</u>	<u>338,489</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	615,481	-	-	-
Security of persons and property . . . . .	827,233	703,877	375,133	326,247
Public health and welfare . . . . .	65,429	-	-	-
Transportation. . . . .	399,295	-	-	-
Leisure time activity. . . . .	39,513	-	-	-
Refuse services . . . . .	285,393	-	-	-
Other . . . . .	-	-	-	-
Capital outlay . . . . .	129,069	-	-	-
Debt service:				
Principal retirement . . . . .	4,543	-	-	-
Interest and fiscal charges . . . . .	135	-	-	-
Total expenditures . . . . .	<u>2,366,091</u>	<u>703,877</u>	<u>375,133</u>	<u>326,247</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>88,505</u>	<u>(9,070)</u>	<u>45,639</u>	<u>12,242</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	-	-	-	-
Loans issued . . . . .	-	-	-	-
Transfers in . . . . .	-	-	-	-
Transfers out . . . . .	(164,000)	-	-	-
Total other financing sources (uses). . . . .	<u>(164,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances . . . . .	(75,495)	(9,070)	45,639	12,242
<b>Fund balances (deficits) at beginning of year . .</b>	<u>599,155</u>	<u>(9,649)</u>	<u>(14,639)</u>	<u>(5,282)</u>
<b>Fund balances (deficits) at end of year . . . . .</b>	<u>\$ 523,660</u>	<u>\$ (18,719)</u>	<u>\$ 31,000</u>	<u>\$ 6,960</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Andrews Road Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 41,847	\$ 1,722,519
-	-	796,076
-	1,520	447,378
-	-	9,353
-	9,549	44,191
645,000	345,918	1,761,235
-	2,681	2,681
-	4,154	59,173
-	4,867	4,867
-	12,374	129,101
<u>645,000</u>	<u>422,910</u>	<u>4,976,574</u>
-	10,184	625,665
-	50,011	2,282,501
-	-	65,429
-	365,217	764,512
-	5,228	44,741
-	-	285,393
-	2,318	2,318
729,765	1,512	860,346
-	35,964	40,507
32,340	7,585	40,060
<u>762,105</u>	<u>478,019</u>	<u>5,011,472</u>
<u>(117,105)</u>	<u>(55,109)</u>	<u>(34,898)</u>
-	25,200	25,200
150,000	-	150,000
32,725	131,275	164,000
-	-	(164,000)
<u>182,725</u>	<u>156,475</u>	<u>175,200</u>
65,620	101,366	140,302
<u>(701,303)</u>	<u>20,620</u>	<u>(111,098)</u>
<u>\$ (635,683)</u>	<u>\$ 121,986</u>	<u>\$ 29,204</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007

<b>Net change in fund balances - total governmental funds</b>	\$	140,302
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets are allocated their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,082,052) exceeded depreciation expense (\$169,579) in the current period.		912,473
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.		(16,412)
The issuance of loans are recorded as an other financing source 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.		(150,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	\$ 14,950	
Income taxes	(14,297)	
Charges for services	37,600	
Intergovernmental revenues	<u>52,072</u>	
Total		90,325
Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		40,507
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.		<u>4,080</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>1,021,275</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE  
LAKE COUNTY, 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, 2007

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 365,650	\$ 372,650	\$ 373,286	\$ 636
Municipal income taxes . . . . .	750,000	750,000	778,711	28,711
Charges for services . . . . .	456,100	452,600	441,627	(10,973)
Licenses and permits. . . . .	8,700	8,900	8,938	38
Fines and forfeitures. . . . .	30,000	35,000	34,996	(4)
Intergovernmental . . . . .	642,530	638,220	633,645	(4,575)
Investment income . . . . .	42,000	42,000	48,693	6,693
Other . . . . .	48,200	53,500	54,674	1,174
<b>Total revenues.</b> . . . .	<u>2,343,180</u>	<u>2,352,870</u>	<u>2,374,570</u>	<u>21,700</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	648,243	648,243	578,104	70,139
Security of persons and property . . . . .	882,230	882,230	837,898	44,332
Public health and welfare. . . . .	70,000	70,000	65,429	4,571
Transportation . . . . .	438,243	438,243	415,184	23,059
Leisure time activity . . . . .	46,110	46,110	38,865	7,245
Refuse services . . . . .	285,380	285,380	284,529	851
Capital outlay. . . . .	206,726	206,726	176,084	30,642
<b>Total expenditures</b> . . . . .	<u>2,576,932</u>	<u>2,576,932</u>	<u>2,396,093</u>	<u>180,839</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(233,752)</u>	<u>(224,062)</u>	<u>(21,523)</u>	<u>202,539</u>
<b>Other financing sources (uses):</b>				
Other financing sources . . . . .	2,100	10,500	12,731	2,231
Other financing uses. . . . .	(26,750)	(26,750)	(21,612)	5,138
Transfers out . . . . .	(164,000)	(164,000)	(164,000)	-
<b>Total other financing sources (uses)</b> . . . . .	<u>(188,650)</u>	<u>(180,250)</u>	<u>(172,881)</u>	<u>7,369</u>
Net change in fund balance . . . . .	(422,402)	(404,312)	(194,404)	209,908
<b>Fund balance at beginning of year</b> . . . . .	579,591	579,591	579,591	-
<b>Prior year encumbrances appropriated</b> . . . . .	56,291	56,291	56,291	-
<b>Fund balance at end of year.</b> . . . .	<u>\$ 213,480</u>	<u>\$ 231,570</u>	<u>\$ 441,478</u>	<u>\$ 209,908</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE  
LAKE COUNTY, 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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 609,690	\$ 622,190	\$ 622,614	\$ 424
Intergovernmental . . . . .	69,800	69,800	70,211	411
Investment income . . . . .	1,800	1,800	1,982	182
Total revenues. . . . .	<u>681,290</u>	<u>693,790</u>	<u>694,807</u>	<u>1,017</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	<u>697,000</u>	<u>697,000</u>	<u>686,484</u>	<u>10,516</u>
Total expenditures . . . . .	<u>697,000</u>	<u>697,000</u>	<u>686,484</u>	<u>10,516</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(15,710)</u>	<u>(3,210)</u>	<u>8,323</u>	<u>11,533</u>
<b>Other financing uses:</b>				
Other financing uses . . . . .	<u>(8,000)</u>	<u>(8,000)</u>	<u>(7,241)</u>	<u>759</u>
Total other financing uses . . . . .	<u>(8,000)</u>	<u>(8,000)</u>	<u>(7,241)</u>	<u>759</u>
Net change in fund balance . . . . .	(23,710)	(11,210)	1,082	12,292
<b>Fund balance at beginning of year . . . . .</b>	<u>23,850</u>	<u>23,850</u>	<u>23,850</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 140</u>	<u>\$ 12,640</u>	<u>\$ 24,932</u>	<u>\$ 12,292</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE  
LAKE COUNTY, 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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 374,520	\$ 379,520	\$ 380,044	\$ 524
Intergovernmental . . . . .	40,410	40,410	39,063	(1,347)
Investment income . . . . .	1,400	2,000	1,665	(335)
Total revenues. . . . .	<u>416,330</u>	<u>421,930</u>	<u>420,772</u>	<u>(1,158)</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	415,441	415,441	388,098	27,343
Total expenditures . . . . .	<u>415,441</u>	<u>415,441</u>	<u>388,098</u>	<u>27,343</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>889</u>	<u>6,489</u>	<u>32,674</u>	<u>26,185</u>
<b>Other financing sources (uses):</b>				
Other financing sources. . . . .	-	-	865	865
Other financing uses . . . . .	(6,300)	(6,300)	(6,000)	300
Total other financing sources (uses) . . . . .	<u>(6,300)</u>	<u>(6,300)</u>	<u>(5,135)</u>	<u>1,165</u>
Net change in fund balance . . . . .	(5,411)	189	27,539	27,350
<b>Fund balance at beginning of year . . . . .</b>	3,869	3,869	3,869	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>1,741</u>	<u>1,741</u>	<u>1,741</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 199</u>	<u>\$ 5,799</u>	<u>\$ 33,149</u>	<u>\$ 27,350</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE  
LAKE COUNTY, 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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 299,352	\$ 304,850	\$ 304,728	\$ (122)
Intergovernmental . . . . .	30,534	31,150	31,082	(68)
Investment income . . . . .	2,631	2,500	2,679	179
Total revenues. . . . .	<u>332,517</u>	<u>338,500</u>	<u>338,489</u>	<u>(11)</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	369,526	369,526	344,999	24,527
Total expenditures . . . . .	<u>369,526</u>	<u>369,526</u>	<u>344,999</u>	<u>24,527</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(37,009)</u>	<u>(31,026)</u>	<u>(6,510)</u>	<u>24,516</u>
<b>Other financing uses:</b>				
Other financing uses . . . . .	(5,200)	(5,200)	(4,709)	491
Total other financing uses . . . . .	<u>(5,200)</u>	<u>(5,200)</u>	<u>(4,709)</u>	<u>491</u>
Net change in fund balance . . . . .	(42,209)	(36,226)	(11,219)	25,007
<b>Fund balance at beginning of year . . . . .</b>	33,142	33,142	33,142	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>9,727</u>	<u>9,727</u>	<u>9,727</u>	<u>-</u>
<b>Fund balance (deficit) at end of year. . . . .</b>	<u>\$ 660</u>	<u>\$ 6,643</u>	<u>\$ 31,650</u>	<u>\$ 25,007</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2007

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 93,165
Total assets. . . . .	<u>\$ 93,165</u>
<b>Liabilities:</b>	
Undistributed monies . . . . .	\$ 93,165
Total liabilities . . . . .	<u>\$ 93,165</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 1 - DESCRIPTION OF THE CITY**

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

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

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

**A. Reporting Entity**

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

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

**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  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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.

***Unearned Revenue and Deferred Revenue*** - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2007, are recorded as deferred revenue.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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 Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund 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 2007.

***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  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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 five years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2007, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2007.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2007 amounted to \$48,693, which included \$20,710 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  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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:

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

**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 was no short-term compensated absences payable at December 31, 2007. 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, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Interfund Activity**

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

**P. Extraordinary and/or Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2007, the City has implemented GASB Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.

**B. Deficit Fund Balances**

Fund balances at December 31, 2007, included the following individual fund deficits:

	<u>Deficit</u>
<u>Major funds</u>	
Safety Forces Levy	\$ 18,719
Andrews Road Construction	635,683
<u>Nonmajor fund</u>	
OPWC - Holly Drive	132,698

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the Andrews Road reconstruction and OPWC - Holly Drive funds resulted primarily from bond anticipation notes being reported as fund liabilities rather than as other financing sources. The deficit fund balance in the safety forces levy fund was due to accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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

**A. Cash on Hand**

At year-end, the City had \$710 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents.

**B. Deposits with Financial Institutions**

At December 31, 2007, the carrying amount of all City deposits was \$924,002. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$666,374 of the City's bank balance of \$966,374 was exposed to custodial risk as discussed below, while \$300,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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, 2007, 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>\$ 295,057</u>	<u>\$ 295,057</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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 295,057</u>	<u>100.00%</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 924,002
Investments	295,057
Cash on hand	<u>710</u>
Total	<u>\$ 1,219,769</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,126,604
Agency funds	<u>93,165</u>
Total	<u>\$ 1,219,769</u>

**NOTE 5 - TAXES**

**A. Property Taxes**

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 6.25% for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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

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

The full tax rate for all City operations for the year ended December 31, 2007 was \$24.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real property tax	\$147,768,900
Public utility tangible personal property	4,230,270
Tangible personal property	<u>2,187,893</u>
Total assessed valuation	<u><u>\$154,187,063</u></u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any delinquencies received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue on the modified accrual basis of accounting.

**B. Income Tax**

The City levies a tax of 2% on all salaries, wages, commissions and other compensation and net profits earned within the City as well as incomes to residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed. Income tax revenue is credited to the general fund and totaled \$796,076 for fiscal year 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2007, 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, 2007.

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

**Governmental Activities:**

Property taxes	\$1,969,608
Income taxes	190,657
Accounts	122,700
Intergovernmental	553,291
Special assessments	6,257

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007, was as follows:

<b><u>Governmental Activities:</u></b>	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 495,279	\$ -	\$ -	\$ 495,279
Construction in progress	<u>786,671</u>	<u>732,412</u>	<u>-</u>	<u>1,519,083</u>
Total capital assets, not being depreciated	<u>1,281,950</u>	<u>732,412</u>	<u>-</u>	<u>2,014,362</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	124,613	-	-	124,613
Buildings	600,100	-	-	600,100
Furniture, fixtures and equipment	530,961	70,221	(35,385)	565,797
Vehicles	1,096,271	34,380	(45,754)	1,084,897
Infrastructure:				
Roads	469,840	245,039	-	714,879
Storm sewers	<u>598,789</u>	<u>-</u>	<u>-</u>	<u>598,789</u>
Total capital assets, being depreciated	<u>3,420,574</u>	<u>349,640</u>	<u>(81,139)</u>	<u>3,689,075</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(17,654)	(6,231)	-	(23,885)
Buildings	(302,897)	(13,833)	-	(316,730)
Furniture, fixtures and equipment	(136,911)	(33,034)	25,359	(144,586)
Vehicles	(520,907)	(75,946)	39,368	(557,485)
Infrastructure:				
Roads	(42,476)	(25,273)	-	(67,749)
Storm sewers	<u>(19,901)</u>	<u>(15,262)</u>	<u>-</u>	<u>(35,163)</u>
Total accumulated depreciation	<u>(1,040,746)</u>	<u>(169,579)</u>	<u>64,727</u>	<u>(1,145,598)</u>
Total capital assets, being depreciated, net	<u>2,379,828</u>	<u>180,061</u>	<u>(16,412)</u>	<u>2,543,477</u>
Governmental activities capital assets, net	<u>\$ 3,661,778</u>	<u>\$ 912,473</u>	<u>\$ (16,412)</u>	<u>\$ 4,557,839</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 7 - CAPITAL ASSETS - (Continued)**

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

**Governmental Activities:**

General government	\$ 8,228
Security of persons and property	83,856
Transportation	68,144
Leisure time activities	<u>9,351</u>
Total depreciation expense - governmental activities	<u>\$ 169,579</u>

**NOTE 8 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund	\$ 131,275
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Transfers to Andrews Road reconstruction fund from:

General fund	<u>32,725</u>
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Total	<u>\$ 164,000</u>
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Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund or to the funds that report the debt obligations as debt service payments due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between governmental funds are eliminated on the statement of activities.

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

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

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

Capital assets consisting of equipment have been capitalized on the statement of net assets in the amount of \$23,693. This amount represents the present value of the minimum lease payments at the time of the acquisitions. Accumulated depreciation as of December 31, 2007 was \$5,331, leaving a current book value of \$18,362. A corresponding liability of \$4,612 was recorded in the statement of net assets. Principal payments in fiscal year 2007 totaled \$4,543 in the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2007:

<u>Year Ending</u> <u>December 31,</u>	<u>Skid Steer</u>
2008	<u>\$ 4,677</u>
Total future minimum lease payments	4,677
Less: amount representing interest	<u>(65)</u>
Present value of net minimum lease payments	<u>\$ 4,612</u>

**NOTE 10 - NOTES PAYABLE**

The City had the following outstanding bond anticipation notes at December 31, 2007:

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/07</u>
Various purpose improvements					
Bond anticipation notes	4.25%	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -
Various purpose improvements					
Bond anticipation notes	4.15%	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>
Total notes payable		<u>\$ 1,000,000</u>	<u>\$ 900,000</u>	<u>\$ (1,000,000)</u>	<u>\$ 900,000</u>

During 2007, the City retired the \$1,000,000 bond anticipation notes that were due on June 25, 2007 and issued \$900,000 in bond anticipation notes to finance the following projects: \$770,000 was issued for the State Route 283 project and \$130,000 was issued for the Holly Drive project. The proceeds of the bond anticipation notes were recorded in the Andrews Road construction fund, a major fund and the OPWC Holly Drive fund, a nonmajor governmental fund, respectively. On the fund financial statements, these bond anticipation notes have been reported as fund liabilities of the funds which received the proceeds. The notes have a 4.15% interest rate and are scheduled to mature on June 25, 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2007, the following changes occurred in the City's governmental activities long-term obligations:

<b>Governmental Activities:</b>	<u>Interest Rate</u>	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Amounts Due in One Year</u>
<u>OPWC Loans:</u>						
1996 - 15 years						
OPWC 93 (Salida Rd.)	0%	\$ 44,063	\$ -	\$ (11,016)	\$ 33,047	\$ 11,017
1996 - 20 years						
OPWC 94 (Harbor Creek)	0%	81,759	-	(8,608)	73,151	8,608
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	101,250	-	(7,500)	93,750	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	118,537	-	(6,586)	111,951	6,586
2005 - 20 years						
OPWC 05 (Weber Area)	0%	42,829	-	(2,254)	40,575	2,254
2007 - 20 years						
OPWC 07 (SR 283)	0%	-	150,000	-	150,000	3,750
Total OPWC loans		<u>388,438</u>	<u>150,000</u>	<u>(35,964)</u>	<u>502,474</u>	<u>39,715</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		323,479	154,751	(158,831)	319,399	124,586
Capital lease obligation		<u>9,155</u>	<u>-</u>	<u>(4,543)</u>	<u>4,612</u>	<u>4,612</u>
Total other long-term obligations		<u>332,634</u>	<u>154,751</u>	<u>(163,374)</u>	<u>324,011</u>	<u>129,198</u>
Total governmental activities long-term obligations		<u>\$ 721,072</u>	<u>\$ 304,751</u>	<u>\$ (199,338)</u>	<u>\$ 826,485</u>	<u>\$ 168,913</u>

Compensated Absences: Compensated absences reported in the "compensated absences payable" account will be paid from the funds from which the employees' salaries are paid, which are primarily the general, policy levy, fire levy and safety forces levy funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Principal requirements to retire the long-term loans outstanding at December 31, 2007 are as follows:

<u>Year</u>	<u>OPWC Loans</u> <u>Principal</u>
2008	\$ 39,715
2009	43,462
2010	43,462
2011	32,446
2012	32,448
2013 - 2017	149,328
2018 - 2022	100,429
2023 - 2027	57,434
2028	<u>3,750</u>
Total	<u>\$ 502,474</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2007, the City's total debt margin was \$15,977,369 and the unvoted debt margin was \$8,352,327.

**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 Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 12 - PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$148,988, \$141,730, and \$139,840, respectively; 88.17% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. The unpaid contribution to fund pension obligations for 2006, in the amount of \$17,623, is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.5% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's contributions for pension obligations to OP&F for the years ended December 31, 2007, 2006 and 2005 were \$184,061, \$174,848 and \$176,672 respectively; 73.38% has been contributed for 2007 and 100% for 2006 and 2005. The unpaid contribution to fund pension obligations for 2007, in the amount of \$48,993, is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 13 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension or Combined Plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, 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 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

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

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$59,163. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

The health care coverage provided by OP&F is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the OP&F'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 6.75% of covered payroll was applied to the post-employment health care program during 2007. 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 2007 that were used to fund post-employment benefits were \$44,261 for police officers and \$15,775 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 (the latest information available), was 14,120 for police officers and 10,563 for firefighters.

**NOTE 14 - OTHER EMPLOYEE BENEFITS**

**A. Deferred Compensation Plan**

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

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE 14 - OTHER EMPLOYEE BENEFITS - (Continued)**

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

The current portion of unpaid compensated absences, for governmental funds, is recorded as a current liability in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported 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, 2007.

**B. Litigation**

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

**NOTE 16 - RISK MANAGEMENT**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

**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>	Safety Forces <u>Levy</u>	Police <u>Levy</u>	Fire <u>Levy</u>
Budget basis	\$ (194,404)	\$ 1,082	\$ 27,539	\$ (11,219)
Net adjustment for revenue accruals	80,026	-	-	-
Net adjustment for expenditure accruals	(27,260)	(17,393)	12,827	11,546
Net adjustment for other sources/uses	8,881	7,241	5,135	4,709
Adjustment for encumbrances	<u>57,262</u>	<u>-</u>	<u>138</u>	<u>7,206</u>
GAAP basis	<u>\$ (75,495)</u>	<u>\$ (9,070)</u>	<u>\$ 45,639</u>	<u>\$ 12,242</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 of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-On-The-Lake, Lake County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the City of Mentor-On-The-Lake's basic financial statements and have issued our report thereon dated May 20, 2008. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the City of Mentor-On-The-Lake in a separate letter dated May 20, 2008.

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



Julian & Grube, Inc.  
May 20, 2008

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

**STATUS OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2006-MOL-001	Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.	Yes	N/A





**Mary Taylor, CPA**  
Auditor of State

**CITY OF MENTOR ON THE LAKE**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 3, 2008**