



OHIO AUDITOR OF STATE
KEITH FABER



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

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mentor-on-the-Lake, Lake County, Ohio (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2018, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, Safety Forces Levy Fund, Police Levy Fund and Fire Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

October 9, 2019

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The management's discussion and analysis of the City of Mentor-on-the-Lake's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. 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 2018 are as follows:

- The total net position of the City increased \$176,995.
- General revenues accounted for \$3,841,986 or 73.38 percent of total governmental activities revenue. Program specific revenues accounted for \$1,383,913 or 26.62 percent of total governmental activities revenue of \$5,198,899.
- The City had \$5,021,904 in expenses related to governmental activities; \$1,383,913 of these expenses were offset by program specific charges for services, grants and contributions.
- The City had five major funds consisting of the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, the Fire Levy Fund, and the Stormwater Grants Fund.
- The General Fund had total revenues (including other financing sources) of \$2,666,769 in 2018. This represents an increase of \$379,962 from 2017 revenues. The expenditures (including other financing uses) of the General Fund, which totaled \$2,536,147 in 2018, increased \$272,505 from the same amount in 2017. The net increase in fund balance for the General Fund was \$130,622 or 43.59 percent.
- The Safety Forces Levy Fund had revenues of \$582,227 in 2018, which is an increase of \$5,109 from 2017 revenues. The expenditures in the Safety Forces Levy Fund totaled \$602,534 in 2018, which increased \$56,594 from 2017. The net decrease in fund balance was \$20,307, resulting in an ending fund balance of \$2,424.
- The Police Levy Fund had revenues of \$421,774 in 2018, which is an increase of \$5,670 from 2017 revenues. The expenditures totaled \$392,629 in 2018, which decreased \$55,656 from 2017 expenditures. The net increase in fund balance was \$29,145, resulting in an ending fund balance of \$55,669.

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- The Fire Levy Fund had revenues of \$356,793 in 2018, which is an increase of \$12,613 from 2017 revenues. The expenditures totaled \$316,160 in 2018, which decreased \$48,525 from 2017 expenditures. The net increase in fund balance was \$40,633, resulting in an ending fund balance of \$63,959.

- The Stormwater Grants Fund had revenues and other financing sources of \$1,410,556 in 2018, which is an increase of \$394,129 from 2017 revenues. The expenditures and other financing uses totaled \$1,802,297 in 2018, which is an increase of \$804,915 from 2017 expenditures. The net decrease in fund balance was \$391,741, resulting in an ending fund balance of \$23,200.

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 position 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 Position and Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, “How did we do financially during 2018?” The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

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

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

The City's statement of net position and statement of activities can be found on pages 24-25 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 focus on the City's most significant funds. The analysis of the City's major governmental funds begins on page 15.

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.

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, the Fire Levy Fund, and the Stormwater Grants 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 governmental fund financial statements can be found on pages 26-36 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 fiduciary funds are agency funds. The fiduciary fund financial statement can be found on page 37 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 38-101 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension and net OPEB liability. The required supplementary information can be found on pages 102-111 of this report.

**CITY OF MENTOR-ON-THE-LAKE
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Government-wide Financial Analysis

The table below provides a summary of the City's net position for 2018 and 2017.

	Net Position	
	2018	2017 *
ASSETS		
Current and other assets	\$ 3,853,639	\$ 3,781,401
Capital assets, net	10,629,905	9,819,437
Total Assets	14,483,544	13,600,838
DEFERRED OUTFLOWS OF RESOURCES		
Pension	788,937	1,332,729
OPEB	270,574	8,645
Total Deferred Outflows of Resources	1,059,511	1,341,374
LIABILITIES		
Current liabilities	316,577	264,708
Long-term liabilities		
Due within one year	1,804,634	1,679,006
Due in more than one year:		
Net Pension Liability	3,505,701	4,389,802
Net OPEB Liability	2,905,622	2,647,859
Other Amounts	966,134	983,017
Total Liabilities	9,498,668	9,964,392
DEFERRED INFLOWS OF RESOURCES		
Property taxes	2,028,252	1,874,340
Pension	591,362	58,099
OPEB	202,397	-
Total Deferred Inflows of Resources	2,822,011	1,932,439
NET POSITION		
Net investment in capital assets	8,157,516	7,840,551
Restricted	578,912	431,793
Unrestricted	(5,514,052)	(5,226,963)
Total Net Position	\$ 3,222,376	\$ 3,045,381

* Restated

For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio’s statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City’s proportionate share of each plan’s collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2018, from \$5,684,595 to \$3,045,381.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2018, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,222,376. At year-end, unrestricted net position had a deficit of \$5,514,052. A portion of the City's net position, \$578,912, represents resources that are subject to external restriction on how they may be used.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 73.40 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles, and infrastructure. The net investment in capital assets component of net position at December 31, 2018, was \$8,157,516 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.

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The table below shows the changes in net position for fiscal year 2018 and 2017.

	Changes in Net Position	
	<u>2018</u>	<u>2017</u>
REVENUES		
Program Revenues:		
Charges for services	\$ 387,432	\$ 383,695
Operating grants and contributions	405,148	348,092
Capital grants and contributions	591,333	260,927
Total Program Revenues	<u>1,383,913</u>	<u>992,714</u>
General Revenues:		
Property taxes	1,985,309	1,987,381
Municipal Income taxes	1,158,683	1,033,023
Unrestricted grants and entitlements	560,372	509,583
Investment income	10,598	4,558
Gain on sale of capital assets	10,622	6,380
All other revenues	89,402	91,014
Total General Revenues	<u>3,814,986</u>	<u>3,631,939</u>
Total Revenues	<u>5,198,899</u>	<u>4,624,653</u>
EXPENSES		
Program Expenses:		
General government	764,985	794,673
Security of persons and property	2,911,132	2,816,752
Public health services	69,477	68,391
Transportation	1,149,505	1,185,512
Leisure time activities	74,803	31,252
Other	50	49,077
Interest and fiscal charges	51,952	46,678
Total Expenses	<u>5,021,904</u>	<u>4,992,335</u>
Change in Net Position	176,995	(367,682)
Net Position - Beginning of Year, Restated	<u>3,045,381</u>	N/A
Net Position - End of Year	<u>\$ 3,222,376</u>	<u>\$ 3,045,381</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$8,645 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$205,910.

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Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities
Total 2018 program expenses under GASB 75	\$ 5,021,904
OPEB expense under GASB 75	(205,910)
2018 contractually required contribution	7,679
Adjusted 2018 program expenses	4,823,673
Total 2017 program expenses under GASB 45	4,992,335
Decrease in program expenses not related to OPEB	\$ (168,662)

Governmental activities' net position increased \$176,995 in 2018. This increase is primarily due to the City's increase in grants and contributions and decrease in expense.

Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$2,911,132, which accounted for 57.97 percent of the total expenses of the City. These expenses were partially funded by \$259,145 in direct charges to users of the services and operating grants and contributions.

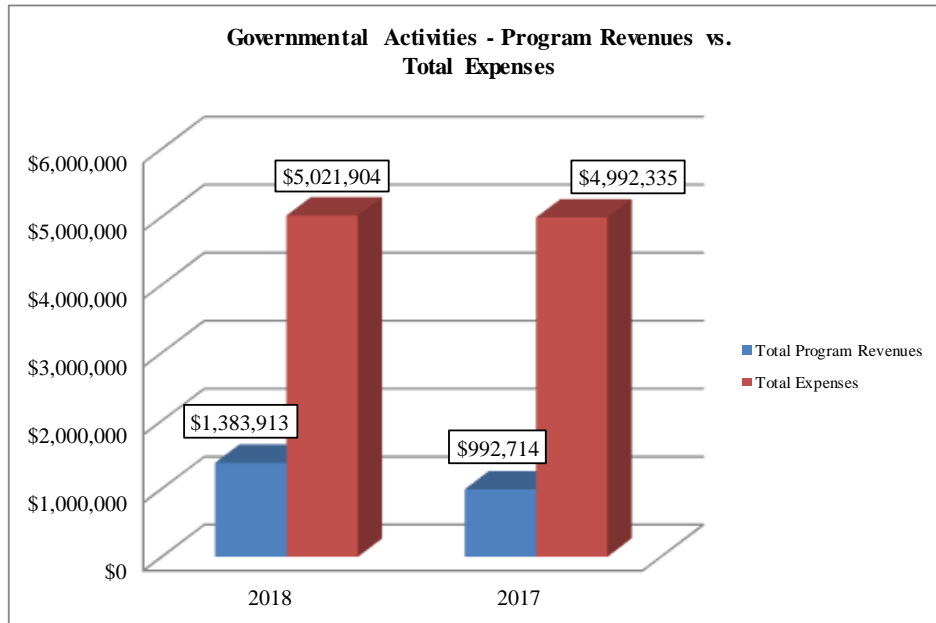
Transportation expenses totaled \$1,149,505, which accounted for 22.89 percent of the total expenses of the City. For 2018, depreciation expense of \$448,362 was 39.00 percent of the total Transportation expenses. General government expenses totaled \$764,985, which was partially funded by \$155,275 in direct charges to users of the services.

The state and federal government, along with similar agencies, contributed to the City a total of \$996,481 in operating/capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the operating/capital grants and contributions received, \$905,307 subsidized transportation programs.

General revenues totaled \$3,814,986 and amounted to 73.38 percent of total governmental revenues. These revenues primarily consist of property and municipal income tax revenue of \$3,143,992. 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 \$560,372.

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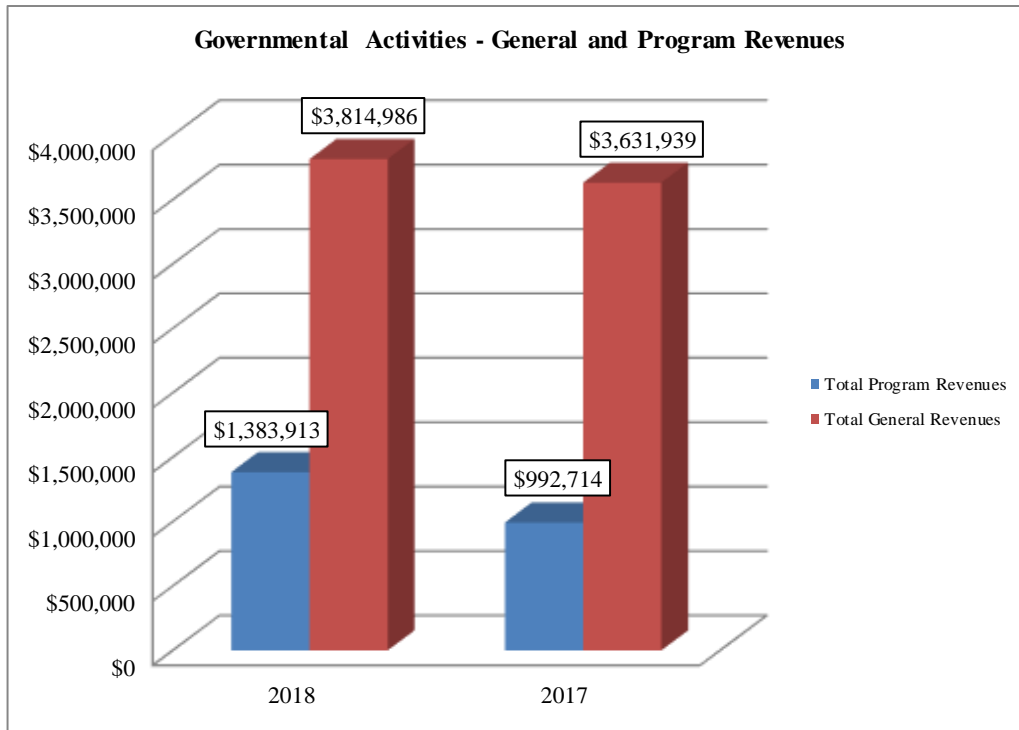
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported 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			
	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
General government	\$ 764,985	\$ 609,710	\$ 794,673	\$ 640,235
Security of persons and property	2,911,132	2,651,987	2,816,752	2,580,680
Public health services	69,477	69,477	68,391	68,391
Transportation	1,149,505	244,198	1,185,512	601,472
Leisure time activities	74,803	10,617	31,252	13,088
Other	50	50	49,077	49,077
Interest and fiscal charges	51,952	51,952	46,678	46,678
Total cost of service	\$ 5,021,904	\$ 3,637,991	\$ 4,992,335	\$ 3,999,621

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The City's dependence upon general revenues for governmental activities is apparent, with 68.57 percent of expenses supported through taxes and other general revenues.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

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The City's governmental funds (as presented on the balance sheet on pages 26-27) reported a combined fund balance of \$802,801, which is \$162,863 lower than last year's combined fund balance of \$965,664. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2018, for all major and nonmajor governmental funds.

	Fund Balances 12/31/2018	Fund Balances 12/31/2017	Increase (Decrease)
Major funds:			
General	\$ 430,310	\$ 299,688	\$ 130,622
Safety forces levy	2,424	22,731	(20,307)
Police levy	55,669	26,524	29,145
Fire levy	63,959	23,326	40,633
Stormwater grants	23,200	414,941	(391,741)
Other nonmajor governmental funds	227,239	178,454	48,785
Total	<u>\$ 802,801</u>	<u>\$ 965,664</u>	<u>\$ (162,863)</u>

General Fund

The City's General Fund balance increased \$130,622, primarily due to increase in revenues and the continuation of the trend of revenues exceeding expenditures. The table that follows assists in illustrating the revenues of the General Fund.

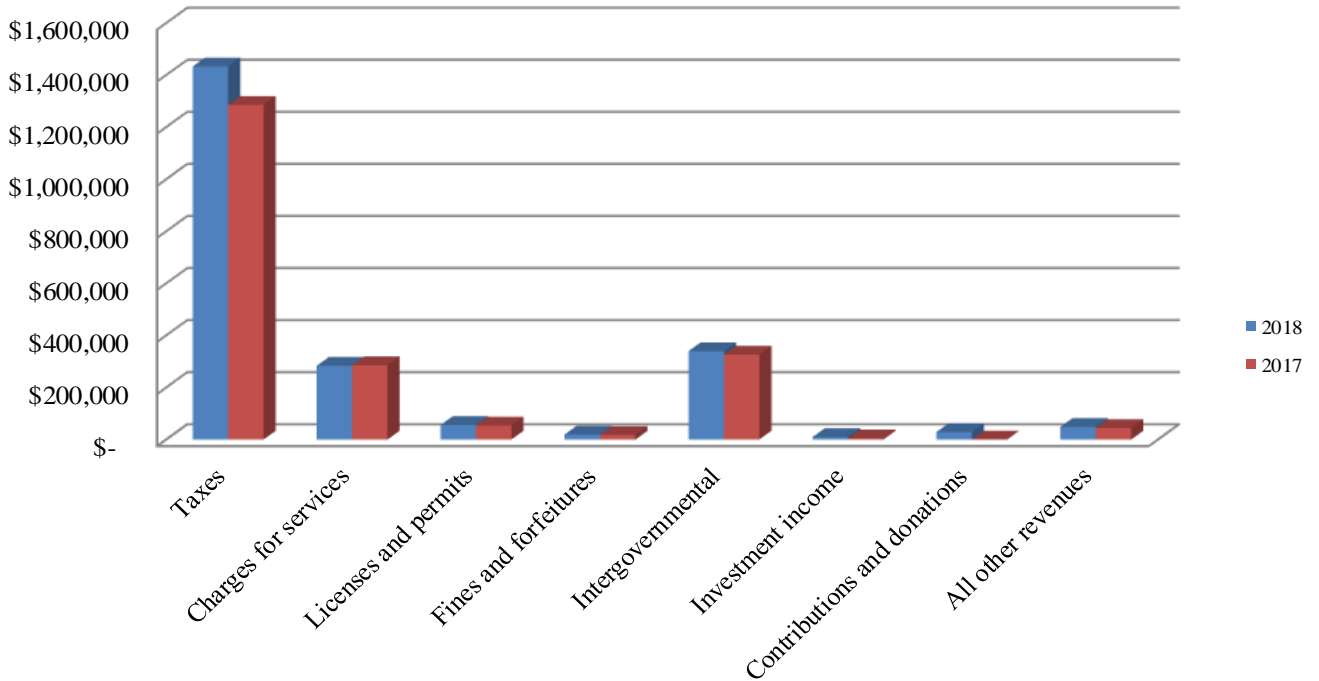
	2018 Amount	2017 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$ 1,433,382	\$ 1,285,361	11.52%
Charges for services	283,282	285,536	-0.79%
Licenses and permits	55,764	54,019	3.23%
Fines and forfeitures	19,284	17,635	9.35%
Intergovernmental	339,199	325,832	4.10%
Investment income	9,378	4,273	119.47%
Contributions and donations	28,500	-	100.00%
All other revenues	48,420	44,196	9.56%
Total	<u>\$ 2,217,209</u>	<u>\$ 2,016,852</u>	9.93%

Tax revenue represents 64.65 percent of all General Fund revenue. Income tax and property tax revenues experienced an increase during 2018.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The following graphs show the breakdown of General Fund revenues for 2018 and 2017:

2018 vs. 2017 Revenue Comparison



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

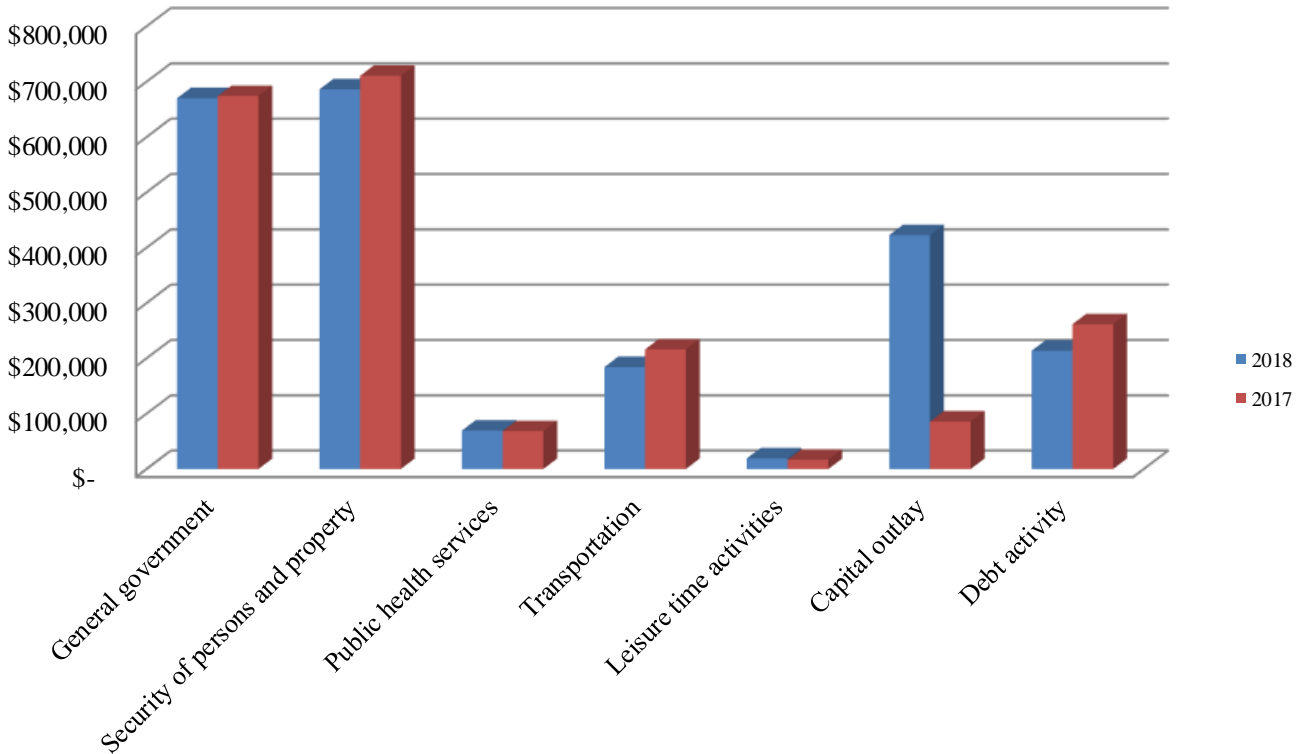
Expenditures	2018 Amount	2017 Amount
General government	\$ 670,272	\$ 674,149
Security of persons and property	686,251	710,729
Public health services	69,477	68,391
Transportation	184,225	216,211
Leisure time activities	19,318	16,678
Capital outlay	422,666	85,848
Debt activity	213,938	261,636
Total	\$ 2,266,147	\$ 2,033,642

The most significant increase was in the area of capital outlay because of the purchase of capital assets during 2018.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The following graphs show the breakdown of General Fund expenditures for 2018 and 2017:

2018 vs. 2017 Expenditures Comparison



Safety Forces Levy Fund

The fund balance of the City’s Safety Forces Levy Fund decreased \$20,307, primarily due to increased expenses exceeding the slight increase revenues. Revenues increased from \$577,118 in 2017 to \$582,227 in 2018. Revenues consist primarily of property tax revenues and related reimbursements from the State. These property tax revenues are generated by a 4.5 mil tax levy. Expenditures increased from \$545,940 in 2017 to \$602,534 in 2018 because of an increase in payroll expenses.

Police Levy Fund

The fund balance of the City’s Police Levy Fund increased \$29,145. Revenues increased from \$416,104 in 2017 to \$421,774 in 2018. Revenues consist primarily of property tax revenues and related reimbursements from the State. These property tax revenues are generated by two tax levies totaling 9.20 mils. Expenditures decreased from \$448,285 in 2017 to \$392,629 in 2018.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

Fire Levy Fund

The fund balance of the City's Fire Levy Fund increased \$40,633, primarily due to a decrease in expenditures. Revenues increased from \$344,180 in 2017 to \$356,793 in 2018. Revenues consist primarily of property tax revenues and related reimbursements from the State. These property tax revenues are generated by two tax levies totaling 7.30 mils. Expenditures decreased from \$364,685 in 2017 to \$316,160 in 2018.

Stormwater Grants Fund

The fund balance of the City's Stormwater Grants Fund decreased \$391,741 from a fund balance of \$414,941 in 2017 to a fund balance of \$23,200 in 2018. The decrease is due to the City using fund balance to continue working on or completing the Lake Street storm sewer project and Pinehurst Drive storm sewer project, respectively.

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 resources 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 resources are adjusted due to actual activity, then the appropriations can be adjusted accordingly.

Budgetary information is presented for the General Fund, the Safety Forces Levy Fund, the Police Levy Fund, and Fire Levy Fund. In the General Fund, actual revenues and other financing sources of \$2,440,360 were more than final budgeted revenues and other financing sources by \$7,252. Actual expenditures and other financing uses of \$2,308,614 were \$87,991 lower than the final budgeted amounts.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

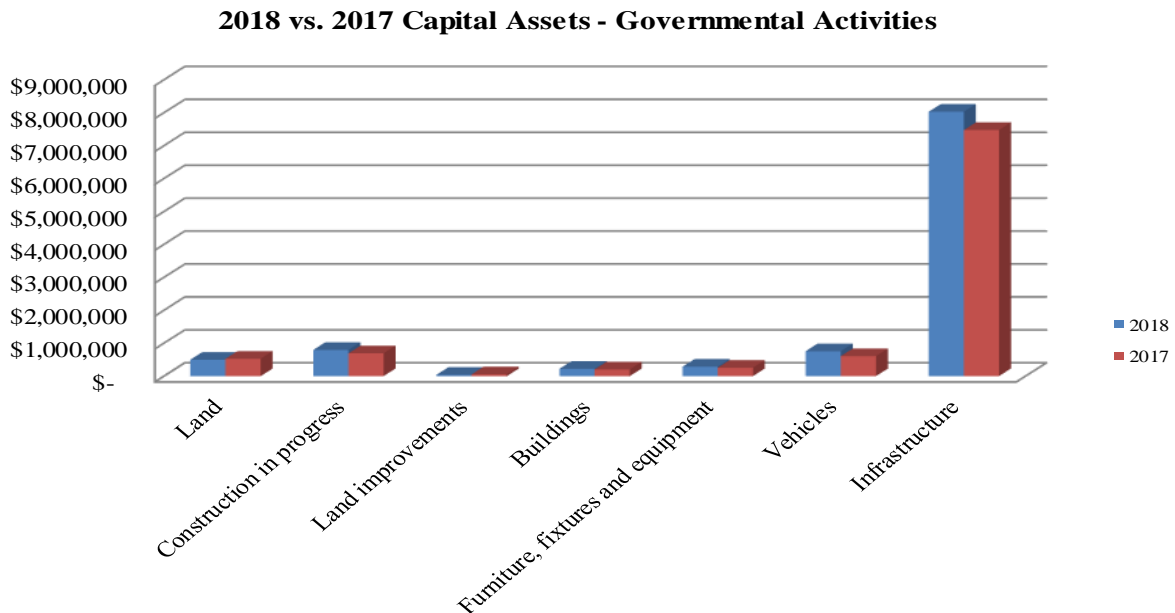
Capital Assets and Debt Administration

Capital Assets

At the end of 2018, the City had \$10,629,905 (net of accumulated depreciation) invested in land, construction in progress, buildings, land improvements, furniture, fixtures and equipment, vehicles, and infrastructure. See Note 7 for details regarding the City's capital assets. The following table shows fiscal year 2018 balances compared to 2017:

	Capital Assets at December 31, (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 497,654	\$ 528,914
Construction in progress	796,171	693,685
Land improvements	41,270	53,713
Buildings	221,784	205,122
Furniture, fixtures and equipment	286,345	255,405
Vehicles	756,172	607,604
Infrastructure	8,030,509	7,474,994
Total Capital Assets	<u>\$ 10,629,905</u>	<u>\$ 9,819,437</u>

The following graphs show the breakdown of governmental capital assets by category for 2018 and 2017:



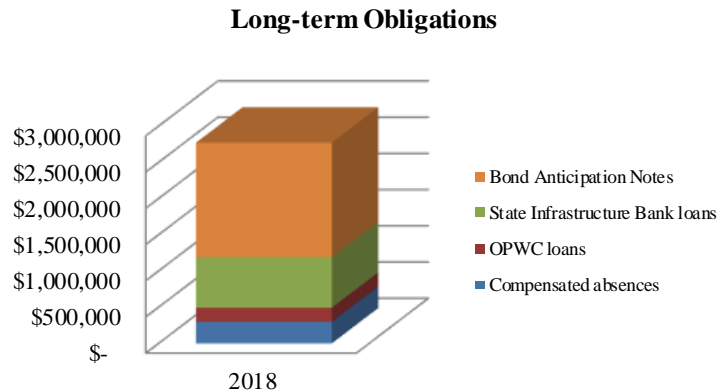
**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2018 and 2017. See Note 9 for details regarding the City’s long-term obligations.

	2018	2017
Compensated absences	\$ 298,379	\$ 268,196
OPWC loans	192,953	161,632
State Infrastructure Bank loans	699,436	762,195
Bond Anticipation Notes	1,580,000	1,470,000
Total outstanding debt	\$ 2,770,768	\$ 2,662,023

A comparison of the long-term obligations of 2018 by category is depicted in the chart below.



Economic Conditions and Outlook

The City of Mentor-on-the-Lake is a bedroom community with only 18 percent of our tax base being retail and commercial. We are located approximately twenty-five miles east of Cleveland and we enjoy a Lake Erie shoreline of two and one half miles. The City is 98 percent developed and all roads are paved with sanitary sewers and waterlines. The City’s unexpended cash fund balances for the Operational Funds which include the General Fund, Police Pension Fund, Police Levy Fund, Fire Levy Fund, Safety Forces Fund, SCMR, Charter Police Levy, Charter Fire Levy Fund, Charter Road Levy Fund and the State Highway Fund for the period ending December 31, 2018 increased from 2017. This increase in fund balance was due mostly from continued cost cutting and spending reductions, however, an increase in income tax collections helped propel revenues.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The income tax collections realized an increase during the 2018 fiscal year due in part to the internal tax audit performed by the Central Collections Agency, CCA. CCA is contracted by the City to oversee all income tax related collections and processing for the residents. The audit, which began in the end of 2017, has identified numerous misfiling and non-filers, resulting in increased and overdue income to the City.

Expenditures for fiscal year 2018 were kept to a minimum knowing that the real estate tax revenues would reflect a continuation of static real estate assessed values due to the County Auditor's sexennial reappraisal. The County Auditor did a triennial reappraisal in calendar year 2015 which unfortunately resulted in a decrease of assessed value for the City of \$97,650 or .08%. The main reason for the reduction in assessed value was from the tax category of Public Utility Tangible. The County conducted the sexennial reappraisal in 2018, and it is anticipated that the assessed value should see a small material increase in 2019.

In conclusion, the implementation of GASB Statement No. 68 and No. 75 requires the reader to perform additional calculations to determine the City's Total Net Position at December 31, 2018 without the implementation of the GASB Statement No. 68 and No. 75. This is an important exercise, as the State Pension Systems (OPERS & OP&F) collect, hold and distributes pensions to our employees, not the City of Mentor-on-the-Lake. These calculations are as follows:

Total Net Position at December 31, 2018 (with GASB 68 & 75)	\$ 3,222,376
GASB 68 Calculations:	
Add: Deferred Inflows related to Pension & OPEB	793,759
Net Pension Liability	3,505,701
Net OPEB Liability	2,905,622
Less: Deferred Outflows related to Pension & OPEB	(1,059,511)
Total Net Position at December 31, 2018 (without GASB 68 & 75)	\$ 9,367,947

Contacting the City's Financial Management: This financial report is designed to provide our citizen's, 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 Hollie R. Bartone, Director of Administration and Finance, City of Mentor-on-the-Lake, 5860 Andrews Rd., Mentor-on-the-Lake, Ohio 44060.

BASIC FINANCIAL STATEMENTS

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 927,845
Materials and Supplies Inventory	18,370
Accounts Receivable	27,290
Intergovernmental Receivable	416,809
Prepaid Items	15,124
Municipal Income Taxes Receivable	300,567
Property Taxes Receivable	2,146,419
Special Assessments Receivable	1,215
Nondepreciable Capital Assets	1,293,825
Depreciable Capital Assets	9,336,080
Total Assets	14,483,544
DEFERRED OUTFLOWS OF RESOURCES	
Pension	788,937
OPEB	270,574
Deferred Outflows of Resources	1,059,511
LIABILITIES	
Accounts Payable	59,016
Accrued Wages and Benefits	111,480
Intergovernmental Payable	7,323
Pension Obligation Payable	41,136
Accrued Interest Payable	18,805
Unearned Revenue	78,817
Long-term Liabilities:	
Due within one year	1,804,634
Due in more than one year:	
Net Pension Liability (See Note 10)	3,505,701
Net OPEB Liability (See Note 11)	2,905,622
Other amounts	966,134
Total Liabilities	9,498,668
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	2,028,252
Pension	591,362
OPEB	202,397
Deferred Inflows of Resources	2,822,011
NET POSITION	
Net Investment in Capital Assets	8,157,516
Restricted for:	
Debt Services	52,297
Capital Projects	21,018
Street Construction, Maintenance and Repair	251,108
Fire and Safety Services	219,462
Other Purposes	35,027
Unrestricted	(5,514,052)
Total Net Position	\$ 3,222,376

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Security of Persons and Property	\$ 2,911,132	\$ 214,145	\$ 45,000	\$ -	\$ (2,651,987)
Public Health Services	69,477	-	-	-	(69,477)
Leisure Time Activities	74,803	18,012	46,174	-	(10,617)
Transportation	1,149,505	-	313,974	591,333	(244,198)
General Government	764,985	155,275	-	-	(609,710)
Other	50	-	-	-	(50)
Interest and Fiscal Charges	51,952	-	-	-	(51,952)
Total Governmental activities	\$ 5,021,904	\$ 387,432	\$ 405,148	\$ 591,333	(3,637,991)
General Revenues:					
Property Taxes levied for:					
General Purposes 302,513					
Other Purposes 1,682,796					
Municipal Income Taxes levied for:					
General Purposes 1,158,683					
Grants & Entitlements not restricted to specific programs 560,372					
Investment Income 10,598					
Gain on Sale of Capital Assets 10,622					
All Other Revenues 89,402					
Total General Revenues 3,814,986					
Change in Net Position 176,995					
Net Position - Beginning of Year, Restated 3,045,381					
Net Position - End of Year \$ 3,222,376					

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General</u>	<u>Safety Forces Levy</u>	<u>Police Levy</u>
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 459,639	\$ 37,566	\$ 60,846
Materials and Supplies Inventory	-	-	4,016
Accounts Receivable	22,867	-	1,484
Intergovernmental Receivable	166,319	38,710	24,042
Prepaid Items	12,094	-	2,180
Municipal Income Taxes Receivable	300,567	-	-
Property Taxes Receivable	343,523	564,729	376,484
Special Assessments Receivable	1,215	-	-
Total Assets	<u>\$ 1,306,224</u>	<u>\$ 641,005</u>	<u>\$ 469,052</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 49,942	\$ -	\$ 4,235
Accrued Wages and Benefits	64,913	35,142	8,622
Intergovernmental Payable	7,323	-	-
Pension Obligation Payable	27,392	-	-
Unearned Revenue	2,090	-	-
<i>Total Liabilities</i>	<u>151,660</u>	<u>35,142</u>	<u>12,857</u>
Deferred Inflows of Resources:			
Property Taxes	323,198	538,662	349,722
Unavailable Revenue - Delinquent Property Taxes	20,325	26,067	26,762
Unavailable Revenue - Income Taxes	238,920	-	-
Unavailable Revenue - Other	141,811	38,710	24,042
<i>Total Deferred Inflows of Resources</i>	<u>724,254</u>	<u>603,439</u>	<u>400,526</u>
Fund Balances:			
Nonspendable	12,094	-	6,196
Restricted	-	2,424	49,473
Committed	24,829	-	-
Assigned	41,002	-	-
Unassigned (Deficit)	352,385	-	-
<i>Total Fund Balances</i>	<u>430,310</u>	<u>2,424</u>	<u>55,669</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,306,224</u>	<u>\$ 641,005</u>	<u>\$ 469,052</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018
(CONTINUED)**

<u>Fire Levy</u>	<u>Stormwater Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 77,940	\$ 23,200	\$ 268,654	\$ 927,845
843	-	13,511	18,370
245	-	2,694	27,290
19,136	-	168,602	416,809
850	-	-	15,124
-	-	-	300,567
299,418	-	562,265	2,146,419
-	-	-	1,215
<u>\$ 398,432</u>	<u>\$ 23,200</u>	<u>\$ 1,015,726</u>	<u>\$ 3,853,639</u>
\$ 4,183	\$ -	\$ 656	\$ 59,016
2,645	-	158	111,480
-	-	-	7,323
9,091	-	4,653	41,136
-	-	76,727	78,817
<u>15,919</u>	<u>-</u>	<u>82,194</u>	<u>297,772</u>
278,155	-	538,515	2,028,252
21,263	-	23,750	118,167
-	-	-	238,920
19,136	-	144,028	367,727
<u>318,554</u>	<u>-</u>	<u>706,293</u>	<u>2,753,066</u>
1,693	-	13,511	33,494
62,266	23,200	226,214	363,577
-	-	22,310	47,139
-	-	-	41,002
-	-	(34,796)	317,589
<u>63,959</u>	<u>23,200</u>	<u>227,239</u>	<u>802,801</u>
<u>\$ 398,432</u>	<u>\$ 23,200</u>	<u>\$ 1,015,726</u>	<u>\$ 3,853,639</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

Total Governmental Fund Balances	\$	802,801
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Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		10,629,905
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds:

Delinquent property taxes	118,167	
Municipal Income taxes	238,920	
Intergovernmental revenues	<u>367,727</u>	
Total		724,814

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(18,805)
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The net pension/OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	788,937	
Deferred Inflows - Pension	(591,362)	
Net Pension Liability	(3,505,701)	
Deferred Outflows - OPEB	270,574	
Deferred Inflows - OPEB	(202,397)	
Net OPEB Liability	<u>(2,905,622)</u>	
Total		(6,145,571)

Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds:

OPWC loans	(192,953)	
Compensated absences	(298,379)	
SIB loan	(699,436)	
Bond anticipation notes	<u>(1,580,000)</u>	
Total		<u>(2,770,768)</u>

Net Position of Governmental Activities	\$	<u>3,222,376</u>
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The notes to the basic financial statements are an integral part of this statement

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**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Safety Forces Levy	Police Levy
REVENUES			
Property Taxes	\$ 302,686	\$ 504,476	\$ 373,447
Municipal Income Taxes	1,130,696	-	-
Intergovernmental	339,199	77,418	48,084
Investment Income	9,378	333	200
Licenses and Permits	55,764	-	-
Fines and Forfeitures	19,284	-	-
Charges for Services	283,282	-	-
Contributions and Donations	28,500	-	-
All Other Revenues	48,420	-	43
Total Revenues	<u>2,217,209</u>	<u>582,227</u>	<u>421,774</u>
EXPENDITURES			
Security of Persons and Property	686,251	602,534	392,629
Public Health Services	69,477	-	-
Leisure Time Activities	19,318	-	-
Transportation	184,225	-	-
General Government	670,272	-	-
Capital Outlay	422,666	-	-
Debt Service:			
Principal Retirement	210,000	-	-
Interest and Fiscal Charges	3,938	-	-
Other	-	-	-
Total Expenditures	<u>2,266,147</u>	<u>602,534</u>	<u>392,629</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>(48,938)</u>	<u>(20,307)</u>	<u>29,145</u>
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	10,622	-	-
OPWC Loans Issued	-	-	-
Notes Issued	385,000	-	-
Transfers In	53,938	-	-
Transfers Out	(270,000)	-	-
Total Other Financing Sources (Uses)	<u>179,560</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	130,622	(20,307)	29,145
Fund Balances - Beginning of Year	299,688	22,731	26,524
Fund Balances - End of Year	<u>\$ 430,310</u>	<u>\$ 2,424</u>	<u>\$ 55,669</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

<u>Fire Levy</u>	<u>Stormwater Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 297,015	\$ -	\$ 507,358	\$ 1,984,982
-	-	-	1,130,696
38,273	591,333	379,879	1,474,186
283	-	404	10,598
-	-	-	55,764
-	-	4,535	23,819
-	-	24,567	307,849
-	-	-	28,500
21,222	-	70,891	140,576
<u>356,793</u>	<u>591,333</u>	<u>987,634</u>	<u>5,156,970</u>
316,160	-	495,254	2,492,828
-	-	-	69,477
-	-	46,174	65,492
-	501	388,265	572,991
-	-	4,900	675,172
-	1,027,733	32,643	1,483,042
-	750,000	596,598	1,556,598
-	14,063	31,964	49,965
-	-	50	50
<u>316,160</u>	<u>1,792,297</u>	<u>1,595,848</u>	<u>6,965,615</u>
<u>40,633</u>	<u>(1,200,964)</u>	<u>(608,214)</u>	<u>(1,808,645)</u>
-	-	-	10,622
-	55,160	-	55,160
-	740,000	455,000	1,580,000
-	24,063	344,563	422,564
-	(10,000)	(142,564)	(422,564)
-	809,223	656,999	1,645,782
<u>40,633</u>	<u>(391,741)</u>	<u>48,785</u>	<u>(162,863)</u>
23,326	414,941	178,454	965,664
<u>\$ 63,959</u>	<u>\$ 23,200</u>	<u>\$ 227,239</u>	<u>\$ 802,801</u>

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

**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
DECEMBER 31, 2018**

Net Change in Fund Balances--Total Governmental Funds	\$	(162,863)
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	1,483,042	
Depreciation	<u>(572,097)</u>	
Total		910,945
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.		
		(100,477)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	327	
Municipal Income taxes	27,987	
Intergovernmental revenues	<u>2,993</u>	
Total		31,307
Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of notes and OPWC Loans.		
		(1,635,160)
Repayment of long-term debt are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
		1,556,598
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows		
Pension		321,477
OPEB		7,679
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension and OPEB expense in the statement of activities.		
Pension		(514,431)
OPEB		(205,910)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.		
Compensated absences	(30,183)	
Accrued interest on bonds	<u>(1,987)</u>	
Total		<u>(32,170)</u>
Change in Net Position of Governmental Activities	\$	<u>176,995</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 332,880	\$ 302,120	\$ 302,686	\$ 566
Municipal Income Taxes	1,057,047	1,127,000	1,127,380	380
Intergovernmental	316,270	337,200	338,929	1,729
Charges for Services	260,702	277,955	280,466	2,511
Licenses and Permits	46,868	49,970	50,800	830
Investment Earnings	7,691	8,200	9,379	1,179
Contributions and Donations	26,731	28,500	28,500	-
Fines and Forfeitures	17,050	18,178	18,178	-
All Other Revenues	45,363	48,365	48,420	55
TOTAL REVENUES	2,110,602	2,197,488	2,204,738	7,250
EXPENDITURES				
Current:				
Security of Persons and Property	869,353	909,353	871,625	37,728
Public Health Services	70,000	70,000	69,477	523
Leisure Time Activities	20,400	24,400	19,314	5,086
Transportation	180,500	183,000	175,433	7,567
General Government	738,307	740,937	711,467	29,470
Capital Outlay	198,915	198,915	191,298	7,617
TOTAL EXPENDITURES	2,077,475	2,126,605	2,038,614	87,991
Excess (Deficiency) of Revenues Over (Under) Expenditures	33,127	70,883	166,124	95,241
OTHER FINANCING SOURCES (USES)				
Proceeds of Notes	325,000	225,000	225,000	-
Transfers - Out	(270,000)	(270,000)	(270,000)	-
Sale of Capital Assets	2,000	10,620	10,622	2
Total Other Financing Sources (Uses)	57,000	(34,380)	(34,378)	2
Net Change in Fund Balance	90,127	36,503	131,746	95,243
Fund Balance - Beginning of Year	278,375	278,375	278,375	-
Prior Year Encumbrances Appropriated	8,516	8,516	8,516	-
Fund Balance - End of Year	\$ 377,018	\$ 323,394	\$ 418,637	\$ 95,243

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SAFETY FORCES LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 478,500	\$ 504,476	\$ 504,476	\$ -
Intergovernmental	75,500	77,418	77,418	-
Investment Income	10	300	333	33
TOTAL REVENUES	<u>554,010</u>	<u>582,194</u>	<u>582,227</u>	<u>33</u>
EXPENDITURES				
Current:				
Security of Persons and Property	<u>577,500</u>	<u>577,500</u>	<u>568,872</u>	<u>8,628</u>
TOTAL EXPENDITURES	<u>577,500</u>	<u>577,500</u>	<u>568,872</u>	<u>8,628</u>
Net Change in Fund Balance	(23,490)	4,694	13,355	8,661
Fund Balance - Beginning of Year	24,211	24,211	24,211	-
Fund Balance - End of Year	<u>\$ 721</u>	<u>\$ 28,905</u>	<u>\$ 37,566</u>	<u>\$ 8,661</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
POLICE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 349,500	\$ 373,400	\$ 373,447	\$ 47
Intergovernmental	47,500	48,080	48,084	4
Investment Income	50	150	200	50
All Other Revenues	50	615	618	3
TOTAL REVENUES	<u>397,100</u>	<u>422,245</u>	<u>422,349</u>	<u>104</u>
EXPENDITURES				
Current:				
Security of Persons and Property	428,661	428,661	397,585	31,076
TOTAL EXPENDITURES	<u>428,661</u>	<u>428,661</u>	<u>397,585</u>	<u>31,076</u>
Net Change in Fund Balance	(31,561)	(6,416)	24,764	31,180
Fund Balance - Beginning of Year	30,130	30,130	30,130	-
Prior Year Encumbrances Appropriated	1,726	1,726	1,726	-
Fund Balance - End of Year	<u>\$ 295</u>	<u>\$ 25,440</u>	<u>\$ 56,620</u>	<u>\$ 31,180</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 279,000	\$ 297,015	\$ 297,015	\$ -
Intergovernmental	37,000	38,272	38,273	1
Investment Income	50	224	283	59
All Other Revenues	-	20,976	20,977	1
TOTAL REVENUES	<u>316,050</u>	<u>356,487</u>	<u>356,548</u>	<u>61</u>
EXPENDITURES				
Current:				
Security of Persons and Property	355,682	355,682	323,861	31,821
TOTAL EXPENDITURES	<u>355,682</u>	<u>355,682</u>	<u>323,861</u>	<u>31,821</u>
Net Change in Fund Balance	(39,632)	805	32,687	31,882
Fund Balance - Beginning of Year	36,742	36,742	36,742	-
Prior Year Encumbrances Appropriated	2,909	2,909	2,909	-
Fund Balance - End of Year	<u>\$ 19</u>	<u>\$ 40,456</u>	<u>\$ 72,338</u>	<u>\$ 31,882</u>

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 115,988
Cash and Cash Equivalents in Segregated Accounts	17,725
Total Assets	\$ 133,713
 Liabilities	
Deposits Held and Due to Others	17,725
Undistributed Monies	115,988
Total Liabilities	\$ 133,713

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, street and maintenance, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City participates in the Northeast Ohio Public Energy Council (NOPEC), a jointly governed organization. Note 18 to the financial statements provides additional information for this entity.

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 most significant of the City’s accounting policies are described below.

A. Reporting Entity

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

B. Basis of Presentation – Fund Accounting

The City's BFS consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

C. Fund Accounting

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

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

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

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

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

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

Stormwater Grants Fund - The Stormwater Grants Fund accounts for all activity related to the Lake Street Storm construction project, including the bond anticipation note and construction expenditures.

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

C. **Fund Accounting** (Continued)

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

D. **Measurement Focus and Basis of Accounting**

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

E. Basis of Accounting

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

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

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

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

E. **Basis of Accounting** (Continued)

Unearned Revenue - Unearned revenue arises when revenues are received in advance of the fiscal year which they were intended to finance.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the governmental-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Note 10 and Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, OPEB and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2019 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, and intergovernmental grants. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position (See Note 10 and Note 11).

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, 2018
(CONTINUED)

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 control has been established by Council at the personal services and other expenditures object levels within each department for all 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 statements reflect the amounts in the original and final amended official Certificate of Estimated Resources issued during 2018.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

F. **Budgetary Data** (Continued)

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 statements 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.

G. **Cash and Cash Equivalents**

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

During 2018, the City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). The City's investment in State Treasury Asset Reserve of 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 and is recognized as an external investment pool by the City. The City measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

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

For 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

The City's policy is to hold investments until maturity or until market values equal or exceed cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$9,378 which includes \$4,833 assigned from other funds.

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 position 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 acquisition values as of the date received. The City maintains a capitalization threshold of \$5,000. 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, 2018
(CONTINUED)**

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

H. **Capital Assets** (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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 (GASB) Statement No. 16, *Accounting for Compensated Absences*. Vacation and compensatory time benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time and compensatory time when earned for all employees with more than one year of service.

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

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

I. **Compensated Absences** (Continued)

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 “matured 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, 2018.

J. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2018, 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.

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 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefits payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

L. **Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

M. Interfund Activity

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

N. Fund Balance

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

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

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

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

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

N. **Fund Balance** (Continued)

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

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

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

O. **Estimates**

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

P. Net Position

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position 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. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Q. 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 year 2018.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

During the year, the City has implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to establish standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities
Net Position December 31, 2017	\$ 5,684,595
Adjustments:	
Net OPEB liability	(2,647,859)
Deferred Outflow - Payments Subsequent to Measurement Date	8,645
Restated Net Position December 31, 2017	\$ 3,045,381

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements were not available.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 4: DEPOSITS AND INVESTMENTS

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

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

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

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

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;

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

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

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; and
3. Obligations to the City.

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

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

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

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

A. Cash on Hand

At year-end, the City had \$610 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, 2018, the carrying amount of all City deposits was \$708,854. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2018, \$234,704 of the City’s bank balance of \$719,347 was exposed to custodial risk as discussed below, while \$484,643 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. Although the securities were held by the pledging financial institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. The City’s financial institution had enrolled in OPCS as of December 31, 2018. One of the City’s financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

C. **Investments**

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identify the City's recurring fair value measurement as of December 31, 2018. As previously discussed STAR Ohio is reported at its net asset value.

As of December 31, 2018, the City had the following investments and maturities:

<u>Investment Type</u>	<u>NAV</u>	<u>Investment Maturities 6 Months or Less</u>
STAR Ohio	<u>\$ 352,094</u>	<u>\$ 352,094</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, 2018:

<u>Investment Type</u>	<u>NAV</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 352,094</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, 2018
(CONTINUED)**

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

D. Reconciliation of Cash and Investments to the Statements

The following is a reconciliation of cash and investments as reported in the note above to cash and cash equivalents as reported on the statement of net position as of December 31, 2018:

<u>Cash and Investments per Note</u>	
Cash on Hand	\$ 610
Carrying Amount of Deposits	708,854
Investments	<u>352,094</u>
Total Cash and Investments per Note	<u>\$ 1,061,558</u>
 <u>Cash and Cash Equivalents per Statements</u>	
Governmental Activities	\$ 927,845
Agency Funds	<u>133,713</u>
Total Cash and Investments per Statements	<u>\$ 1,061,558</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 semiannually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 5: **TAXES** (Continued)

A. **Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing entities 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, 2018, was \$27.80 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2018 property tax receipts were based are as follows:

Real Property Tax	\$ 122,270,760
Public Utility Tangible Personal Property Tax	<u>6,155,020</u>
Total Assessed Valuation	<u>\$ 128,425,780</u>

Property taxes receivables represent real and public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2018. 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 inflows of resources on the modified accrual basis of accounting.

B. **Income Taxes**

The City levies a tax of 2 percent on all salaries, wages, commissions, and other compensation and net profits earned within the City as well as incomes to residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed. Income tax revenue is credited to the General Fund and totaled \$1,130,696 on the modified accrual basis for fiscal year 2018.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2018, consisted of taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements, and shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2018.

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

<u>Governmental Activities</u>	
Property Taxes	\$ 2,146,419
Municipal Income Taxes	300,567
Accounts	27,290
Special Assessments	1,215
Intergovernmental:	
Homestead & Rollback Reimbursements	116,517
Local Government	140,917
Gasoline & Excise Taxes/Auto Registration	156,576
Other	2,799

Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within the subsequent year.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balances 12/31/2017	Additions	Disposals	Balances 12/31/2018
Governmental Activities				
Nondepreciable Assets:				
Land	\$ 528,914	\$ -	\$ (31,260)	\$ 497,654
Construction in progress	693,685	1,027,733	(925,247)	796,171
Total Nondepreciable Assets	<u>1,222,599</u>	<u>1,027,733</u>	<u>(956,507)</u>	<u>1,293,825</u>
Depreciable Assets:				
Land Improvements	234,577	-	-	234,577
Buildings	680,502	38,505	(23,620)	695,387
Furniture, fixtures and equipment	579,867	66,058	(6,620)	639,305
Vehicles	1,504,719	318,103	(215,654)	1,607,168
Infrastructure:				
Roads	8,885,393	78,901	-	8,964,294
Storm sewers	989,647	878,989	-	1,868,636
Total Depreciable Assets	<u>12,874,705</u>	<u>1,380,556</u>	<u>(245,894)</u>	<u>14,009,367</u>
Less Accumulated Depreciation				
Land Improvements	(180,864)	(12,443)	-	(193,307)
Buildings	(475,380)	(20,843)	22,620	(473,603)
Furniture, fixtures and equipment	(324,462)	(34,764)	6,266	(352,960)
Vehicles	(897,115)	(101,672)	147,791	(850,996)
Infrastructure:				
Roads	(2,183,843)	(378,345)	-	(2,562,188)
Storm sewers	(216,203)	(24,030)	-	(240,233)
Total Accumulated Depreciation	<u>(4,277,867)</u>	<u>(572,097)</u> *	<u>176,677</u>	<u>(4,673,287)</u>
Total Depreciable Assets, Net	<u>8,596,838</u>	<u>808,459</u>	<u>(69,217)</u>	<u>9,336,080</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,819,437</u>	<u>\$ 1,836,192</u>	<u>\$ (1,025,724)</u>	<u>\$ 10,629,905</u>

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

Security of Persons and Property:	\$ 89,220
Leisure Time Activities	9,311
Transportation	448,362
General Government	25,204
Total Depreciation Expense	<u>\$ 572,097</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 8: INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2018, consisted of the following, as reported on the fund financial statements:

<u>Transfers to:</u>	<u>Transfers from:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Stormwater Grant</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 53,938	\$ 53,938
Stormwater Grants	-	-	24,063	24,063
Nonmajor Governmental Funds	270,000	10,000	64,563	344,563
	<u>\$ 270,000</u>	<u>\$ 10,000</u>	<u>\$ 142,564</u>	<u>\$ 422,564</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund or to the funds that report the debt obligations as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 9: LONG-TERM OBLIGATIONS

A. Changes in Governmental Activities' Long-Term Obligations

During the fiscal year 2018, the following changes occurred in the City's governmental activities' long-term obligations:

	Interest Rate	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Amounts Due in One Year
Governmental Activities:						
<u>Bond Anticipation Notes</u>						
Various Purpose Improvement Anticipation Notes, 2017,	1.875%	\$ 1,470,000	\$ -	\$ (1,470,000)	\$ -	\$ -
Various Purpose Improvement Anticipation Notes, 2018,	1.99%	-	1,580,000	-	1,580,000	1,580,000
Total Bond Anticipation Notes		<u>1,470,000</u>	<u>1,580,000</u>	<u>(1,470,000)</u>	<u>1,580,000</u>	<u>1,580,000</u>
<u>OPWC Loans:</u>						
2000 - 20 years						
OPWC 99 (Reynolds Rd.)	0%	18,750	-	(7,500)	11,250	7,500
2004 - 20 years						
OPWC 04 (Holly Dr.)	0%	46,098	-	(6,585)	39,513	6,585
2005 - 20 years						
OPWC 05 (Weber Area)	0%	18,034	-	(2,254)	15,780	2,254
2007 - 20 years						
OPWC 07 (SR 283)	0%	78,750	-	(7,500)	71,250	7,500
2018 - 20 years						
OPWC 18 (Pinehurst Dr.)	0%	-	50,000	-	50,000	1,250
2018 - 20 years						
OPWC 18 (Lake St. Trunk)	0%	-	5,160	-	5,160	258
Total OPWC Loans		<u>161,632</u>	<u>55,160</u>	<u>(23,839)</u>	<u>192,953</u>	<u>25,347</u>
<u>Other Long-Term Obligations:</u>						
SIB Loan # 070B10	3%	762,195	-	(62,759)	699,436	64,659
Compensated absences		268,196	163,758	(133,575)	298,379	134,628
Net Pension Liability:						
OPERS		1,976,303	-	(686,431)	1,289,872	-
OP&F		2,413,499	-	(197,670)	2,215,829	-
Total Net Pension Liability		<u>4,389,802</u>	<u>-</u>	<u>(884,101)</u>	<u>3,505,701</u>	<u>-</u>
Net OPEB Liability:						
OPERS		839,338	20,716	-	860,054	-
OP&F		1,808,521	237,047	-	2,045,568	-
Total Net OPEB Liability		<u>2,647,859</u>	<u>257,763</u>	<u>-</u>	<u>2,905,622</u>	<u>-</u>
Total Other Long-Term Obligations		<u>8,068,052</u>	<u>421,521</u>	<u>(1,080,435)</u>	<u>7,409,138</u>	<u>199,287</u>
Total Governmental Activities						
Long-Term Obligations		<u>\$ 9,699,684</u>	<u>\$ 2,056,681</u>	<u>\$ (2,574,274)</u>	<u>\$ 9,182,091</u>	<u>\$ 1,804,634</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

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

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, SCMR, and Safety Forces Levy funds. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the General Fund, Fire Levy and SCMR. For additional information related to the net pension liability and net OPEB liability see Notes 10 and 11.

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.

State Infrastructure Bank (SIB) Loans: In prior years, the City had entered into a SIB loan provided by the Ohio Department of Transportation (ODOT), which was originally issued in the amount of \$624,284. This loan was provided to assist with the costs in the State Route 283 Reconstruction project within the City. During 2013, ODOT and the City completed this project. After final closure and review of this project, ODOT increased the original SIB loan by \$586,670 and extended the maturity date to June 2028. The City has pledged its general obligation to repay 100 percent of the loan. The City’s Debt Service Fund will be used to repay the required debt service on this loan

Bond Anticipation Note: During 2018, the City issued \$1,580,000 in bond anticipation notes. The 2018 bond anticipation note issuance is broken down as follows: \$400,000 was issued for the State Route 283 project; \$25,000 was issued for the Holly Drive project; \$345,000, and \$40,000 were issued for the purchase of dump trucks, and 911 system, respectively, in the General Fund; \$390,000 was issued for the Lake Street Storm Sewer project; \$350,000 was issued for the Pinehurst Drive Storm Sewer project; and \$30,000 was issued for the purchase of radio equipment. The proceeds of the bond anticipation notes were recorded in the Andrews Road Construction Fund (a nonmajor governmental fund), the OPWC Holly Drive Fund (a nonmajor governmental fund), the General Fund (a major fund), the Stormwater Grants Fund (a major fund), and the Radio Equipment Fund (a nonmajor governmental fund), respectively. The notes have a 1.99 percent interest rate and are scheduled to mature on June 14, 2019.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

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

Principal requirements to retire the long-term loans outstanding at December 31, 2018, are as follows:

Year	OPWC Loans		SIB Loan # 070B10	
	Principal		Principal	Interest
2019	\$ 25,347		\$ 64,659	\$ 20,501
2020	22,849		66,614	18,547
2021	19,098		68,626	16,534
2022	19,098		70,702	14,460
2023	19,098		72,838	12,323
2024-2028	58,633		355,997	27,229
2029-2033	13,790		-	-
2034-2038	13,790		-	-
2039	1,250		-	-
Total	<u>\$ 192,953</u>		<u>\$ 699,436</u>	<u>\$ 109,594</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 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2018, the City's total debt margin was \$11,075,481 and the unvoted debt margin was \$4,649,851.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 10: **PENSION PLAN**

A. **Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**CITY OF MENTOR-ON-THE-LAKE
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FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)
(Continued)

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

**CITY OF MENTOR-ON-THE-LAKE
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)
(Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2018 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

* Member contributions within combined plan are not used to fund the defined benefit retirement allowance

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$141,597 for 2018. Of this amount, \$19,276 is reported as pension obligation payable.

**CITY OF MENTOR-ON-THE-LAKE
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$179,880 for 2018. Of this amount, \$21,861 is reported as pension obligation payable.

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LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.0087030%	0.023979%	0.014125%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.0082220%</u>	<u>0.022483%</u>	<u>0.013620%</u>	
Change in Proportionate Share	<u><u>-0.000481%</u></u>	<u><u>-0.001496%</u></u>	<u><u>-0.000505%</u></u>	
Proportionate Share of the Net Pension Liability	\$ 1,289,872	\$ 1,379,896	\$ 835,933	\$ 3,505,701
Pension Expense	\$ 225,983	\$ 150,126	\$ 138,322	\$ 514,431

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LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Changes of assumptions	\$ 154,148	\$ 60,129	\$ 36,426	\$ 250,703
Differences between expected and actual experience	1,318	20,941	12,686	34,945
Changes in proportion and differences between City contributions and proportionate share of contributions	531	28,845	152,436	181,812
City contributions subsequent to the measurement date	<u>141,597</u>	<u>114,164</u>	<u>65,716</u>	<u>321,477</u>
Total Deferred Outflows of Resources	<u>\$ 297,594</u>	<u>\$ 224,079</u>	<u>\$ 267,264</u>	<u>\$ 788,937</u>
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$ 276,920	\$ 47,737	\$ 28,915	\$ 353,572
Differences between expected and actual experience	25,418	2,495	1,512	29,425
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>87,419</u>	<u>96,748</u>	<u>24,198</u>	<u>208,365</u>
Total Deferred Inflows of Resources	<u>\$ 389,757</u>	<u>\$ 146,980</u>	<u>\$ 54,625</u>	<u>\$ 591,362</u>

\$321,477 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Year Ending December 31:				
2019	\$ 70,700	\$ 20,285	\$ 59,668	\$ 150,653
2020	(68,729)	7,736	52,064	(8,929)
2021	(121,942)	(41,706)	22,112	(141,536)
2022	(113,790)	(26,107)	5,636	(134,261)
2023	-	2,340	6,310	8,650
Thereafter	-	387	1,133	1,520
Total	<u>\$ (233,761)</u>	<u>\$ (37,065)</u>	<u>\$ 146,923</u>	<u>\$ (123,903)</u>

E. Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

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NOTE 10: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observant period base of 2006 and then established the base year as 2015. For females, Health Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

OPERS manages investments in investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	<u>100.00 %</u>	<u>5.66 %</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,290,485	\$ 1,289,872	\$ 455,663

Changes Between Measurement Date and Report Date In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 7.50 percent to 7.20 percent. Although the exact amount of these changes is now known, it has the potential to impact, the City’s net pension liability.

F. **Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75percent to 10.5 percent
Payroll Increases	3.25 percent
Inflation Assumptions	2.75 percent
Cost of Living Adjustments	2.20 percent and 3.00 percent

Mortality rates for active members were based on the RP2014 Total employee and Healthy Annuitant Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent. For disabled retirees, the mortality rates were based on the RP2014 Disabled Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale.

The most recent experience study was completed January 1, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

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NOTE 10: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric
* levered 2x

OP&F’s Board of Trustees has incorporated the “risk parity” concept into OP&F’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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LAKE COUNTY, OHIO
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FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 10: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 3,071,686	\$ 2,215,829	\$ 1,517,755

NOTE 11: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability**

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

A. **Net OPEB Liability** (Continued)

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. **Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)
(Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)
(Continued)

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$3,277 for 2018.

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contractually required contribution to OP&F was \$4,402 for 2018.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.008310%	0.038100%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.007920%</u>	<u>0.036103%</u>	
Change in Proportionate Share	<u>-0.000390%</u>	<u>-0.001997%</u>	
Proportionate Share of the Net OPEB			
Liability	\$ 860,054	\$ 2,045,568	\$ 2,905,622
OPEB Expense	\$ 58,056	\$ 147,854	\$ 205,910

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 670	\$ -	\$ 670
Changes of assumptions	62,621	199,604	262,225
City contributions subsequent to the measurement date	<u>3,277</u>	<u>4,402</u>	<u>7,679</u>
Total Deferred Outflows of Resources	<u>\$ 66,568</u>	<u>\$ 204,006</u>	<u>\$ 270,574</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 10,317	\$ 10,317
Net difference between projected and actual earnings on OPEB plan investments	64,068	13,465	77,533
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>31,989</u>	<u>82,558</u>	<u>114,547</u>
Total Deferred Inflows of Resources	<u>\$ 96,057</u>	<u>\$ 106,340</u>	<u>\$ 202,397</u>

\$7,679 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2019	(\$1,052)	\$12,238	\$11,186
2020	(1,052)	12,238	11,186
2021	(14,645)	12,238	(2,407)
2022	(16,017)	12,237	(3,780)
2023	-	15,604	15,604
Thereafter	<u>-</u>	<u>28,709</u>	<u>28,709</u>
Total	<u>(\$32,766)</u>	<u>\$93,264</u>	<u>\$60,498</u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

CITY OF MENTOR-ON-THE-LAKE
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for a five year period ending December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

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LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	<u>100.00 %</u>	<u>4.98 %</u>

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$ 1,142,618	\$ 860,054	\$ 631,462

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

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LAKE COUNTY, OHIO
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 822,888	\$ 860,054	\$ 898,445

Changes Between Measurement Date and Report Date In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 6.50 percent to 6.00 percent. Although the exact amount of these changes is not known, it has the potential to impact, the City's net OPEB liability.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. ACTUARIAL ASSUMPTIONS – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. ACTUARIAL ASSUMPTIONS – OP&F (Continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
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NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric

* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

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(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. ACTUARIAL ASSUMPTIONS – OP&F (Continued)

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index.

The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$ 2,556,984	\$ 2,045,568	\$ 1,652,055

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 11: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	<u>Non-Medicare</u>	<u>Non-AARP</u>	<u>AARP</u>	<u>Rx Drug</u>	<u>Medicare Part B</u>
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	Current Health Care Cost Trend Rate		
	<u>1% Decrease</u>	<u>Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$ 1,589,034	\$ 2,045,568	\$ 2,660,821

Changes between Measurement Date and Report Date In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City’s NOL is not known.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 12: **OTHER EMPLOYEE BENEFITS**

A. **Deferred Compensation Plan**

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

B. **Compensated Absences**

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

Upon retirement or death employees are paid one-half of their leave balance, not to exceed a maximum of 480 hours of sick leave, except fire department employees who can receive a maximum of 600 hours of sick leave pay. Upon retirement, termination, or death of the employee all compensatory time is paid and vacation leave balance is paid at his/her current rate of pay but not to exceed any accumulation greater than one week above their current accrued compensation step.

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 position.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 13: **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, 2018.

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 14: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to 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 (OML) public risk pool for workers' compensation. The Group Rating Plan is administered by CompManagement, Inc, who acts as the City's third party administrator. University Hospitals CompCare acts as the City's Managed Care Organization (MCO). 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, 2018
(CONTINUED)**

NOTE 15: 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); and
3. Encumbrances are treated as expenditures (budget) rather than as a part of restricted, committed, and assigned fund balances (GAAP);

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.

	General	Safety Forces Levy	Police Levy	Fire Levy
Budget basis	\$ 131,746	\$ 13,355	\$ 24,764	\$ 32,687
Net adjustment of revenue accruals	12,471	-	(575)	245
Net adjustment of expenditure accruals	(268,535)	(33,662)	730	2,098
Net adjustment of other sources/uses	213,938	-	-	-
Adjustment for encumbrances	41,002	-	4,226	5,603
GAAP basis	<u>\$ 130,622</u>	<u>\$ (20,307)</u>	<u>\$ 29,145</u>	<u>\$ 40,633</u>

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 16: FUND BALANCES

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

Fund Balances	General	Safety Forces Levy	Police Levy	Fire Levy	Stormwater Grants	Other Governmental Funds	Total
<i>Nonspendable</i>							
Prepaid Items	\$ 12,094	\$ -	\$ 2,180	\$ 850	\$ -	\$ -	\$ 15,124
Materials and Supplies Inventory	-	-	4,016	843	-	13,511	18,370
<i>Total Nonspendable</i>	<u>12,094</u>	<u>-</u>	<u>6,196</u>	<u>1,693</u>	<u>-</u>	<u>13,511</u>	<u>33,494</u>
<i>Restricted for</i>							
Police Pension	-	-	-	-	-	3,593	3,593
Safety Services	-	2,424	49,473	62,266	-	18,678	132,841
Other Law Enforcement	-	-	-	-	-	10,119	10,119
EMS Grant	-	-	-	-	-	2,764	2,764
FEMA Grants	-	-	-	-	-	1	1
ODNR Grant	-	-	-	-	-	422	422
Streets and Highways	-	-	-	-	-	120,493	120,493
Stormwater Grants	-	-	-	-	23,200	-	23,200
Fire Grants	-	-	-	-	-	10,557	10,557
Debt Service	-	-	-	-	-	54,046	54,046
OPWC Capital Projects	-	-	-	-	-	5,541	5,541
<i>Total Restricted</i>	<u>-</u>	<u>2,424</u>	<u>49,473</u>	<u>62,266</u>	<u>23,200</u>	<u>226,214</u>	<u>363,577</u>
<i>Committed to</i>							
McMinn Memorial Park	-	-	-	-	-	413	413
Labor Day Parade	-	-	-	-	-	1,059	1,059
Toys for Kids Program	-	-	-	-	-	20,249	20,249
Municipal Complex Renovations	-	-	-	-	-	1	1
Grade Stake Fees	24,829	-	-	-	-	-	24,829
Radio Equipment	-	-	-	-	-	588	588
<i>Total Committed</i>	<u>24,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,310</u>	<u>47,139</u>
<i>Assigned to</i>							
General Government	38,791	-	-	-	-	-	38,791
Police Department	289	-	-	-	-	-	289
Service Department	1,922	-	-	-	-	-	1,922
<i>Total Assigned</i>	<u>41,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,002</u>
<i>Unassigned (Deficit)</i>	352,385	-	-	-	-	(34,796)	317,589
Total Fund Balances	<u><u>\$ 430,310</u></u>	<u><u>\$ 2,424</u></u>	<u><u>\$ 55,669</u></u>	<u><u>\$ 63,959</u></u>	<u><u>\$ 23,200</u></u>	<u><u>\$ 227,239</u></u>	<u><u>\$ 802,801</u></u>

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

NOTE 17: OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2018, the City's commitments for encumbrances in the governmental funds were as follows:

	Encumbrances Outstanding
Major Funds:	
General	\$ 41,002
Police Levy	4,226
Fire Levy	5,603
Stormwater Grants	17,855
Nonmajor Funds:	
Special Revenue Funds	28,611
Total	\$ 97,297

NOTE 18: JOINTLY GOVERNED ORGANIZATION

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 173 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the ten-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Chuck Keiper, Executive Director, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

NOTE 19: **ACCOUNTABILITY**

Fund balances at December 31, 2018 included the following individual fund deficit:

	<u>Deficit</u>
Other Governmental Funds	
Fire Equipment Fund	<u>\$ 34,796</u>

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

NOTE 20: **SUBSEQUENT EVENT**

On June 14, 2019 the City issued \$1,460,000 in bond anticipation notes maturing on June 13, 2020 for capital projects and equipment purchases. These proceeds were used to retire \$1,460,000 in bond anticipation notes maturing on June 14, 2019.

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FIVE YEARS (1)**

Traditional Plan	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.008222%	0.008703%	0.020318%	0.020421%	0.020421%
City's Proportionate Share of the Net Pension Liability	\$1,289,872	\$1,976,303	\$1,505,391	\$1,072,354	\$1,048,133
City's Covered Payroll	\$1,089,638	\$1,125,100	\$1,081,725	\$1,093,650	\$1,167,546
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.38%	175.66%	139.17%	98.05%	89.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
OHIO POLICE AND FIRE PENSION FUND
LAST FIVE YEARS (1)**

Police	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0224830%	0.0239790%	0.0231850%	0.0241208%	0.0241208%
City's Proportionate Share of the Net Pension Liability	\$1,379,896	\$1,518,808	\$1,491,501	\$1,249,558	\$1,174,759
City's Covered Payroll	\$545,668	\$572,858	\$544,053	\$499,816	\$523,204
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	252.88%	265.13%	274.15%	250.00%	224.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%
Fire	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0136200%	0.0141250%	0.0123310%	0.0090013%	0.0090013%
City's Proportionate Share of the Net Pension Liability	\$835,933	\$894,691	\$793,237	\$466,305	\$438,392
City's Covered Payroll	\$268,583	\$274,183	\$223,694	\$184,698	\$188,843
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	311.24%	326.31%	354.61%	252.47%	232.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY CONTRIBUTIONS - PENSION
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST SIX YEARS (1)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$141,597	\$141,653	\$135,012	\$129,807	\$131,238	\$151,781
Contributions in Relation to the Contractually Required Contribution	<u>(\$141,597)</u>	<u>(\$141,653)</u>	<u>(\$135,012)</u>	<u>(\$129,807)</u>	<u>(\$131,238)</u>	<u>(\$151,781)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered Payroll	\$1,011,407	\$1,089,638	\$1,125,100	\$1,081,725	\$1,093,650	\$1,167,546
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY CONTRIBUTIONS - PENSION
OHIO POLICE AND FIRE PENSION FUND
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Contractually Required Contributions</u>										
Police	\$114,164	\$103,677	\$108,843	\$103,370	\$94,965	\$82,300	\$65,564	\$73,458	\$82,362	\$86,554
Fire	\$65,716	\$63,117	\$64,433	\$52,568	\$43,404	\$38,203	\$32,272	\$34,333	\$41,669	\$41,025
Total Required Contributions	\$179,880	\$166,794	\$173,276	\$155,938	\$138,369	\$120,503	\$97,836	\$107,791	\$124,031	\$127,579
Contributions in Relation to the Contractually Required Contribution	(\$179,880)	(\$166,794)	(\$173,276)	(\$155,938)	(\$138,369)	(\$120,503)	(\$97,836)	(\$107,791)	(\$124,031)	(\$127,579)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered Payroll										
Police	\$600,863	\$545,668	\$572,858	\$544,053	\$499,816	\$523,204	\$514,227	\$576,141	\$645,976	\$678,855
Fire	\$279,643	\$268,583	\$274,183	\$223,694	\$184,698	\$188,843	\$187,084	\$199,032	\$241,559	\$237,826
<u>Pension Contributions as a Percentage of Covered Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%

[1] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TWO YEARS (1)**

	2018	2017
City's Proportion of the Net OPEB Liability	0.007920%	0.008310%
City's Proportionate Share of the Net OPEB Liability	\$ 860,054	\$ 839,338
City's Covered Payroll	\$ 1,121,459	\$ 1,148,293
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.69%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
OHIO POLICE AND FIRE PENSION FUND
LAST TWO YEARS (1)**

	2018	2017
City's Proportion of the Net OPEB Liability	0.036103%	0.038100%
City's Proportionate Share of the Net OPEB Liability	\$ 2,045,568	\$ 1,808,521
City's Covered Payroll	\$ 814,251	\$ 847,041
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	251.22%	213.51%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS - OPEB
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR YEARS (1)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 3,277	\$ 4,574	\$ 23,430	\$ 21,634
Contributions in Relation to the Contractually Required Contribution	<u>(3,277)</u>	<u>(4,574)</u>	<u>(23,430)</u>	<u>(21,634)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 1,093,334	\$ 1,121,459	\$ 1,148,293	\$ 1,105,186
Contributions as a Percentage of Covered Payroll	0.30%	0.41%	2.04%	1.96%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY CONTRIBUTIONS - OPEB
OHIO POLICE AND FIRE PENSION FUND
LAST TEN YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 4,402	\$ 4,071	\$ 4,235	\$ 4,154	\$ 4,024	\$ 25,596	\$ 47,338	\$ 52,325	\$ 59,909	\$ 61,871
Contributions in Relation to the Contractually Required Contribution	<u>(4,402)</u>	<u>(4,071)</u>	<u>(4,235)</u>	<u>(4,154)</u>	<u>(4,024)</u>	<u>(25,596)</u>	<u>(47,338)</u>	<u>(52,325)</u>	<u>(59,909)</u>	<u>(61,871)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 880,506	\$ 814,251	\$ 847,041	\$ 767,747	\$ 684,514	\$ 712,047	\$ 701,311	\$ 775,173	\$ 887,535	\$ 916,681
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%	6.75%	6.75%	6.75%

See accompanying notes to the required supplementary information

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2018**

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 4.23 percent to 3.85 percent

**CITY OF MENTOR-ON-THE-LAKE
LAKE COUNTY, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2018**

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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 (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 9, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the City's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

October 9, 2019

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

FINDING NUMBER 2018-001

Material Weakness – Pension and OPEB Liability Calculations:

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Governmental Accounting Standards Board statements No. 68 and 75 require the City's statements prepared on an accrual basis of accounting to report a net pension liability and net OPEB (other postemployment benefit) liability along with related deferred inflows, deferred outflows and pension/OPEB expense for each pension system in which the City participates. The calculation of these accounts are primarily based on the City's proportionate share of contributions to the pension plans of all participating governments; and to assist entities in calculating their account balances, the pension systems annually provide informational tables showing each entity's proportionate share of contributions sorted by employer code number.

During the prior measurement year (2016), the City's pension contributions to the Ohio Public Employee's retirement system were reported under a single employer code. For the current measurement year (2017), the City's allocated its contributions between two separate "child" employer codes. As a result of this change, the proportionate share amount from the new second employer code was inadvertently omitted from the City's initial calculation of its net pension/OPEB liabilities and related accounts. This omission resulted in the Governmental Activities' net pension liability and net OPEB liability being understated \$799,149 and \$534,276, respectively along with related deferred inflows/outflows and pension/OPEB expense amounts being incorrectly calculated as well. These items were subsequently adjusted to the financial statements by management.

Management should review the GAAP journal entries, liability calculations, and financial statements to help ensure they are supported by sufficient documentation, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid financial statement errors and help ensure more accurate financial reporting.

Officials' Response: Mentor on the Lake implemented a pick-up plan for OPERS pension withholding during 2017, subsequently creating a second reportable child code which was not included in the original calculations. For 2018 and going forward, all withholding will be reported under one single code.

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OHIO AUDITOR OF STATE KEITH FABER



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
NOVEMBER 7, 2019**