

**CITY OF CORTLAND  
TRUMBULL COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 1998**

**City of Cortland, Ohio**  
*General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*  
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Report of Independent Accountants

We have audited the accompanying general purpose financial statements of the City of Cortland as of and for the year ended December 31, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cortland, as of December 31, 1998 and results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the City implemented GASB Statement No. 32 for its Deferred Compensation Plan through Ohio Public Employees Deferred Compensation Program.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 1999 on our consideration of the City of Cortland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

  
Jim Petro  
Auditor of State

June 24, 1999

**City of Cortland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 1998*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash and Cash Equivalents	\$347,101	\$564,324	\$26,627	\$59,443
Receivables:				
Taxes	394,652	1,157,239	54,724	0
Accounts	518	0	0	0
Interfund	54,582	0	0	0
Accrued Interest	117	0	0	0
Intergovernmental Receivable	19,978	55,367	0	0
Advances to Other Funds	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$816,948</b>	<b>\$1,776,930</b>	<b>\$81,351</b>	<b>\$59,443</b>

Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Enterprise			
	\$348,125	\$0	\$1,345,620
	0	0	1,606,615
	338,101	0	338,619
	0	0	54,582
	0	0	117
	0	0	75,345
	72,000	0	72,000
	1,594,629	2,398,292	3,992,921
	0	0	26,291
	0	0	454,531
	<u>\$2,352,855</u>	<u>\$2,398,292</u>	<u>\$7,966,641</u>

(continued)

**City of Cortland, Ohio**  
**Combined Balance Sheet**  
*All Fund Types and Account Groups (continued)*  
December 31, 1998

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities, Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$7,745	\$4,481	\$336	\$0
Contracts Payable	0	0	0	21,676
Interfund Payable	0	0	0	0
Accrued Wages	3,502	18,945	0	0
Compensated Absences Payable	135	1,221	0	0
Intergovernmental Payable	9,660	21,157	0	0
Deferred Revenue	394,652	1,157,239	54,724	0
Advances from Other Funds	0	72,000	0	0
Capital Leases Payable	0	0	0	0
OPWC Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<b>Total Liabilities</b>	<b>415,694</b>	<b>1,275,043</b>	<b>55,060</b>	<b>21,676</b>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	13,396	23,704	0	28,853
Unreserved, Undesignated	387,858	478,183	26,291	8,914
<b>Total Fund Equity and Other Credits</b>	<b>401,254</b>	<b>501,887</b>	<b>26,291</b>	<b>37,767</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$816,948</b>	<b>\$1,776,930</b>	<b>\$81,351</b>	<b>\$59,443</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Enterprise			
\$241,772	\$0	\$0	\$254,334
0	0	0	21,676
54,582	0	0	54,582
5,390	0	0	27,837
13,317	0	39,349	54,022
14,691	0	38,173	83,681
0	0	0	1,606,615
0	0	0	72,000
0	0	43,300	43,300
881,332	0	0	881,332
0	0	360,000	360,000
<u>1,211,084</u>	<u>0</u>	<u>480,822</u>	<u>3,459,379</u>
0	2,398,292	0	2,398,292
21,508	0	0	21,508
1,120,263	0	0	1,120,263
0	0	0	65,953
0	0	0	901,246
<u>1,141,771</u>	<u>2,398,292</u>	<u>0</u>	<u>4,507,262</u>
<u>\$2,352,855</u>	<u>\$2,398,292</u>	<u>\$480,822</u>	<u>\$7,966,641</u>

**City of Cortland, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For The Year Ended December 31, 1998*

	Governmental	
	General	Special Revenue
<b>Revenues</b>		
Property and Other Taxes	\$370,154	\$1,103,914
Charges for Services	0	2,819
Licenses, Permits and Fees	72,177	0
Fines and Forfeitures	10,181	1,723
Intergovernmental	237,023	460,128
Interest	57,258	4,930
Contributions and Donations	0	275
Other	17,598	34,220
<i>Total Revenues</i>	<u>764,391</u>	<u>1,608,009</u>
<b>Expenditures</b>		
Current:		
General Government	402,952	0
Security of Persons and Property	14,272	1,191,960
Public Health and Welfare	5,607	1,009
Transportation	0	157,381
Community Environment	22,112	10,363
Basic Utility Services	15,651	0
Leisure Time Activities	15,237	0
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	16,244
Interest and Fiscal Charges	0	10,640
<i>Total Expenditures</i>	<u>475,831</u>	<u>1,387,597</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>288,560</u>	<u>220,412</u>
<b>Other Financing Sources (Uses)</b>		
Inception of Capital Lease	0	59,544
Operating Transfers In	0	26,525
Operating Transfers Out	(198,785)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(198,785)</u>	<u>86,069</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	89,775	306,481
<i>Fund Balances Beginning of Year</i>	<u>311,479</u>	<u>195,406</u>
<i>Fund Balances End of Year</i>	<u>\$401,254</u>	<u>\$501,887</u>

See accompanying notes to the general purpose financial statements



Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$52,064	\$0	\$1,526,132
0	0	2,819
0	0	72,177
0	0	11,904
6,172	64,308	767,631
0	0	62,188
0	0	275
0	0	51,818
<u>58,236</u>	<u>64,308</u>	<u>2,494,944</u>
1,447	0	404,399
0	0	1,206,232
0	0	6,616
0	0	157,381
0	0	32,475
0	0	15,651
0	0	15,237
0	198,801	198,801
40,000	0	56,244
25,650	0	36,290
<u>67,097</u>	<u>198,801</u>	<u>2,129,326</u>
<u>(8,861)</u>	<u>(134,493)</u>	<u>365,618</u>
0	0	59,544
0	172,260	198,785
0	0	(198,785)
<u>0</u>	<u>172,260</u>	<u>59,544</u>
(8,861)	37,767	425,162
35,152	0	542,037
<u>\$26,291</u>	<u>\$37,767</u>	<u>\$967,199</u>

**City of Cortland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
 All Governmental Fund Types  
 For The Year Ended December 31, 1998*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Property and Other Taxes	\$360,559	\$370,154	\$9,595
Charges for Services	0	0	0
Licenses, Permits and Fees	45,100	72,177	27,077
Fines and Forfeitures	8,000	10,372	2,372
Intergovernmental	245,700	252,284	6,584
Interest	40,000	56,697	16,697
Contributions and Donations	0	0	0
Other	10,000	17,598	7,598
<i>Total Revenues</i>	<u>709,359</u>	<u>779,282</u>	<u>69,923</u>
<b>Expenditures</b>			
Current:			
General Government	661,627	408,370	253,257
Security of Persons and Property	15,200	13,057	2,143
Public Health and Welfare	10,000	5,607	4,393
Transportation	0	0	0
Community Environment	30,550	21,936	8,614
Basic Utility Services	32,600	15,851	16,749
Leisure Time Activities	17,600	15,237	2,363
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>767,577</u>	<u>480,058</u>	<u>287,519</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(58,218)</u>	<u>299,224</u>	<u>357,442</u>
<b>Other Financing Sources (Uses)</b>			
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(199,054)	(198,785)	269
<i>Total Other Financing Sources (Uses)</i>	<u>(199,054)</u>	<u>(198,785)</u>	<u>269</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(257,272)</u>	<u>100,439</u>	<u>357,711</u>
<i>Fund Balances Beginning of Year</i>	<u>257,272</u>	<u>257,272</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>23,887</u>	<u>23,887</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$23,887</u>	<u>\$381,598</u>	<u>\$357,711</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,110,000	\$1,103,914	(\$6,086)	\$50,149	\$52,064	\$1,915
35,000	25,116	(9,884)	0	0	0
500	0	(500)	0	0	0
1,500	1,871	371	0	0	0
325,898	430,106	104,208	8,000	6,172	(1,828)
2,500	4,930	2,430	0	0	0
500	275	(225)	0	0	0
8,500	34,220	25,720	0	0	0
<u>1,484,398</u>	<u>1,600,432</u>	<u>116,034</u>	<u>58,149</u>	<u>58,236</u>	<u>87</u>
0	0	0	27,651	1,447	26,204
1,519,116	1,159,579	359,537	0	0	0
2,712	1,009	1,703	0	0	0
254,359	161,016	93,343	0	0	0
20,117	10,363	9,754	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
300,000	300,000	0	40,000	40,000	0
17,757	17,749	8	25,650	25,650	0
<u>2,114,061</u>	<u>1,649,716</u>	<u>464,345</u>	<u>93,301</u>	<u>67,097</u>	<u>26,204</u>
<u>(629,663)</u>	<u>(49,284)</u>	<u>580,379</u>	<u>(35,152)</u>	<u>(8,861)</u>	<u>26,291</u>
(64,000)	(24,000)	(40,000)	0	0	0
0	26,525	26,525	0	0	0
0	0	0	0	0	0
<u>(64,000)</u>	<u>2,525</u>	<u>(13,475)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(693,663)	(46,759)	566,904	(35,152)	(8,861)	26,291
574,194	574,194	0	35,152	35,152	0
10,024	10,024	0	0	0	0
<u>(\$109,445)</u>	<u>\$537,459</u>	<u>\$566,904</u>	<u>\$0</u>	<u>\$26,291</u>	<u>\$26,291</u>

(continued)

**City of Cortland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types (continued)  
For The Year Ended December 31, 1998*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Property and Other Taxes	\$0	\$0	\$0
Charges for Services	0	0	0
Licenses, Permits and Fees	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	490,000	64,308	(425,692)
Interest	0	0	0
Contributions and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>490,000</u>	<u>64,308</u>	<u>(425,692)</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	318,000	227,654	90,346
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>318,000</u>	<u>227,654</u>	<u>90,346</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>172,000</u>	<u>(163,346)</u>	<u>(335,346)</u>
<b>Other Financing Sources (Uses)</b>			
Advances Out	0	0	0
Operating Transfers In	0	172,260	172,260
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>172,260</u>	<u>172,260</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>172,000</u>	<u>8,914</u>	<u>(163,086)</u>
<i>Fund Balances Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>
Prior Year Encumbrances Appropriated	0	0	0
<i>Fund Balances End of Year</i>	<u>\$172,000</u>	<u>\$8,914</u>	<u>(\$163,086)</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,520,708	\$1,526,132	\$5,424
35,000	25,116	(9,884)
45,600	72,177	26,577
9,500	12,243	2,743
1,069,598	752,870	(316,728)
42,500	61,627	19,127
500	275	(225)
18,500	51,818	33,318
<u>2,741,906</u>	<u>2,502,258</u>	<u>(239,648)</u>
689,278	409,817	279,461
1,534,316	1,172,636	361,680
12,712	6,616	6,096
254,359	161,016	93,343
50,667	32,299	18,368
32,600	15,851	16,749
17,600	15,237	2,363
318,000	227,654	90,346
340,000	340,000	0
43,407	43,399	8
<u>3,292,939</u>	<u>2,424,525</u>	<u>868,414</u>
<u>(551,033)</u>	<u>77,733</u>	<u>628,766</u>
(64,000)	(24,000)	(40,000)
0	198,785	198,785
(199,054)	(198,785)	269
<u>(263,054)</u>	<u>(24,000)</u>	<u>239,054</u>
(814,087)	53,733	867,820
866,618	866,618	0
33,911	33,911	0
<u>\$86,442</u>	<u>\$954,262</u>	<u>\$867,820</u>

**City of Cortland, Ohio**  
*Combined Statement of Revenues,  
 Expenses and Changes in Fund Equity  
 Proprietary Fund Type  
 For The Year Ended December 31, 1998*

	Enterprise
<b>Operating Revenues</b>	
Charges for Services	\$1,244,558
Tap-In Fees	67,800
Other	15,020
	1,327,378
 <b>Operating Expenses</b>	
Personal Services	180,688
Contractual Services	118,049
Materials and Supplies	59,625
Depreciation	369,609
	727,971
 <i>Total Operating Revenues</i>	 1,327,378
 <i>Operating Income</i>	 599,407
 <b>Non-Operating Revenues</b>	
Interest	4,093
	4,093
 <i>Net Income</i>	 603,500
 <i>Retained Earnings Beginning of Year</i>	 516,763
 <i>Retained Earnings End of Year</i>	 1,120,263
 Contributed Capital Beginning and End of Year	 21,508
 <i>Total Fund Equity End of Year</i>	 \$1,141,771

See accompanying notes to the general purpose financial statements

**City of Cortland, Ohio**  
*Combined Statement of Revenues, Expenses and  
 Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
 Proprietary Fund Type  
 For The Year Ended December 31, 1998*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$1,120,500	\$1,083,780	(\$36,720)
Tap-In Fees	93,501	67,800	(25,701)
Other	5,000	15,020	10,020
Interest	12,000	4,093	(7,907)
<i>Total Revenues</i>	<u>1,231,001</u>	<u>1,170,693</u>	<u>(60,308)</u>
<b>Expenses</b>			
Personal Services	193,820	178,842	14,978
Contractual Services	210,245	118,049	92,196
Materials and Supplies	123,159	3,160	119,999
Capital Outlay	836,948	810,725	26,223
Debt Service:			
Principal Retirement	52,000	51,529	471
<i>Total Expenses</i>	<u>1,416,172</u>	<u>1,162,305</u>	<u>253,867</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(185,171)	8,388	193,559
Advances In	24,000	24,000	0
<i>Excess of Revenues Over (Under) Expenses and Advances</i>	(161,171)	32,388	193,559
<i>Fund Equity Beginning of Year</i>	65,170	65,170	0
Prior Year Encumbrances Appropriated	13,332	13,332	0
<i>Fund Equity (Deficit) End of Year</i>	<u>(\$82,669)</u>	<u>\$110,890</u>	<u>\$193,559</u>

See accompanying notes to the general purpose financial statements

City of Cortland, Ohio  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For The Year Ended December 31, 1998

	Enterprise
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$1,263,273
Cash Received from Tap-In Fees	67,800
Cash Payments for Contractual Services	(118,049)
Cash Payments for Employee Services and Benefits	(178,842)
Other Cash Receipts	15,020
	1,049,202
<b>Net Cash Received from Operating Activities</b>	
<b>Cash Flows from Noncapital Financing Activities</b>	
Advance In	24,000
Repayment of Advances	54,582
	78,582
<b>Net Cash Received from Noncapital Financing Activities</b>	
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of Fixed Assets	(810,725)
Principal Payments - OWDA Loans	(51,529)
	(862,254)
<b>Net Cash Used in Capital and Related Financing Activities</b>	
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	4,093
	4,093
<b>Net Increase in Cash and Cash Equivalents</b>	
<b>Cash and Cash Equivalents Beginning of Year</b>	78,502
<b>Cash and Cash Equivalents End of Year</b>	\$348,125
 <b>Reconciliation of Operating Income to Net Cash Received from Operating Activities</b>	
<i>Operating Income</i>	\$599,407
<i>Adjustments:</i>	
Depreciation	369,609
Increase in Accounts Receivable	(160,778)
Increase/(Decrease) in Liabilities:	
Accounts Payable	239,118
Accrued Wages	1,020
Compensated Absences Payable	(3,044)
Intergovernmental Payable	3,870
	3,870
<b>Net Cash Received from Operating Activities</b>	<b>\$1,049,202</b>
 <b>Non-Cash Capital Financing Activities:</b>	

During 1998 the enterprise funds' fixed assets increased by \$352,685 for assets acquired with Ohio Public Works Commission loan funds sent directly to contractors.

See accompanying notes to the general purpose financial statements



**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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**Note 1 - Description of the City and Reporting Entity**

The City of Cortland (the "City") was incorporated under the laws of the State of Ohio in 1852, and adopted its first charter in 1981. The Charter provides for a Mayor-Council form of government. The Mayor is elected for a four-year term and Council are elected at large for four year staggered terms.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Cortland, this includes police protection, fire fighting and prevention, street maintenance and repairs, building inspection and wastewater. The operation of each of these activities is directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The Lakeview Local School District has been excluded from the reporting entity because the City is not financially accountable for this organization nor does the City approve the budget, the levying of taxes or the issuance of debt for this organization.

The City participates in the Eastgate Development and Transportation Agency and the Emergency Management Agency. These are jointly governed organizations and are presented in Note 19 of the general purpose financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

***A. Basis of Presentation - Fund Accounting***

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

**Governmental Fund Types** Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

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

**Special Revenue Funds** These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund** This fund is used to account for the accumulations of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Fund** This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**Proprietary Fund Types** Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

**Enterprise Funds** These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

**General Fixed Assets Account Group** This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

**General Long-Term Obligations Account Group** This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds.

## City of Cortland, Ohio

### Notes to The General Purpose Financial Statements For The Year Ended December 31, 1998

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#### ***B. Measurement Focus and Basis of Accounting***

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is thirty-one days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, State-levied locally shared taxes (including gasoline tax), fines and forfeitures and income tax withheld by employers.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1998, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

#### ***C. Budgetary Process***

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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

***Tax Budget*** At the first Council meeting in July, the Mayor presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 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 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 appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1998.

***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 fund, department and object level. 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 allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

***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. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

***Encumbrances*** As part of formal budgetary control, purchases orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

***D. Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 1998. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1998.

*Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1998 amounted to \$57,258, which includes \$33,782 assigned from other City funds.*

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

***E. Inventory***

Inventories of governmental funds are stated at cost while the inventory of the proprietary funds is stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Since the inventory balance at December 31, 1998 was not significant, an amount was not reported on the combined balance sheet.

***F. Fixed Assets***

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group.

Fixed assets utilized in the proprietary funds are capitalized in these funds.

Fixed asset values were initially determined at December 31, 1996, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five hundred dollars.

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 useful life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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Assets in the general fixed assets account group are not depreciated. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets. Depreciation of water and sewer lines and equipment in the proprietary fund types is computed using the straight-line method over the following useful lives.

Water and Sewer Lines	50 years
Equipment	3 - 20 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 1998, interest costs incurred on construction projects in the proprietary funds were not material.

***G. Intergovernmental Revenues***

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements, are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

***H. Accrued Liabilities and Long-term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty-one days after year end are considered not to have been made with current expendable available financial resources. Bonds and leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

***I. Compensated Absences***

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed 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 when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***J. Short and Long-Term Receivables/Payables***

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans are classified as "Interfund Receivables/Payables." Long-term interfund loans are classified as "Advances to Other Funds" or "Advances from Other Funds."

***K. Fund Equity***

Reserves for retained earnings represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Contributed capital is recorded in proprietary funds that have received capital grants or contributions from customers. A determination of the amount of contributed capital received prior to 1996 has not been made. Fund balance reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances.

***L. Total Columns on General Purpose Financial Statements***

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

***M. Estimates***

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

**Note 3 - Change in Accounting Principles**

For 1998, the City has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value. The implementation of GASB 31 had no effect on fund balance/retained earnings as of December 31, 1997.

## City of Cortland, Ohio

### Notes to The General Purpose Financial Statements For The Year Ended December 31, 1998

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The City has also implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through Ohio Public Employees Deferred Compensation Program. On September 1, 1998, Ohio Public Employees Deferred Compensation Program created a trust for the assets of the plan for which the City has no fiduciary responsibility. Therefore, the balance of the Ohio Public Employees Deferred Compensation Plan is no longer shown as a part of the City's financial statements.

#### **Note 4 - Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).
4. Short-term note proceeds and note principal retirement for governmental funds and all debt principal retirement for the enterprise fund are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.



**City of Cortland, Ohio**

*Notes to The General Purpose Financial Statements  
For The Year Ended December 31, 1998*

Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$89,775	\$306,481	(\$8,861)	\$37,767
Net Adjustment for Revenue Accruals	14,891	(67,121)	0	0
Net Adjustment for Expenditure Accruals	12,493	61,761	0	0
Principal Retirement	0	(300,000)	0	0
Advance Out	0	(24,000)	0	0
Encumbrances	(16,720)	(23,880)	0	(28,853)
Budget Basis	\$100,439	(\$46,759)	(\$8,861)	\$8,914

Net Income/Excess of Revenues Over Expenses And Advances  
Proprietary Fund Type

	Enterprise
GAAP Basis	\$603,500
Net Adjustment for Revenue Accruals	(160,778)
Advances In	24,000
Net Adjustment for Expense Accruals	61,471
Principal Retirement	(51,529)
Capital Outlay	(810,725)
Depreciation	369,609
Encumbrances	(3,160)
Budget Basis	\$32,388

**Note 5 - Legal Compliance**

The following funds had total appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

Federal Grant Special Revenue Fund	\$125,000
Sewer Enterprise Fund	89,949

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

General Fund	
Community Environment	\$ 22
Special Revenue Fund	
SCMR - Transportation	3,483

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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**Note 6 - 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 Council has identified as not required for use within the current two 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.

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 finance director 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.

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 exceeds 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 obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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. 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.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits** At year-end, the carrying amount of the City's deposits was \$495,620 and the bank balance was \$259,495. Of the bank balance:

1. \$113,000 was covered by federal depository insurance.
2. \$146,495 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

**Investments** The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Fair Value</u>
STAR Ohio	<u>\$850,000</u>	<u>\$850,000</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,345,620	\$0
Investments of cash management pool:		
STAR Ohio	(850,000)	850,000
GASB Statement 3	<u>\$495,620</u>	<u>\$850,000</u>

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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**Note 7 - Property Taxes**

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. The latest reappraisal in Trumbull County was completed in 1996. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31, if paid semiannually, the first payment is due December 31 with the remainder payable by June 20, unless extended.

Taxes collected from tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values on December 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by single-county taxpayers are due September 20. Multi-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property tax collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property tax on behalf of all taxing districts within the county including the City of Cortland. 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, 1998, was \$20.26 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1998 property tax receipts were based are as follows:

Real Property	\$88,077,560
Public Utility Property	3,466,620
Tangible Personal Property	5,370,956
Total Valuation	<u>\$96,915,136</u>

**Note 8 - Receivables**

Receivables at December 31, 1998, primarily consisted of accounts (billings for user charged services including unbilled utility services), intergovernmental receivables arising from grants, entitlements and shared revenues and interest on investments. All receivables are considered fully collectible.

**City of Cortland, Ohio**  
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A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund:	
Estate Tax	\$12,217
Local Government	7,761
Total General Fund	19,978
Special Revenue Funds:	
Fire Levy	36,096
Street Construction, Maintenance and Repair	14,307
Permissive Tax	2,436
State Grant	1,367
State Highway	1,161
Total Special Revenue Funds	55,367
Total	\$75,345

**Note 9 - Contingencies**

**A. Grants**

The City receives financial assistance from 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 is 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 adverse effect on the overall financial position of the City at December 31, 1998.

**B. Litigation**

The City of Cortland is a party to legal proceedings. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Note 10 - Fixed Assets**

A summary of the enterprise funds' property, plant and equipment at December 31, 1998, follows:

Land	\$687
Water and Sewer Lines	4,802,697
Equipment	48,927
Total	4,852,311
Less: Accumulated Depreciation	(3,257,682)
Net Fixed Assets	\$1,594,629

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

Proprietary funds' fixed assets exclude water and sewer lines constructed prior to 1994.

A summary of changes in general fixed assets follows:

	Balance January 1, 1998	Additions	Deductions	Balance December 31, 1998
Land	\$6,476	\$0	\$0	\$6,476
Buildings	834,947	0	0	834,947
Equipment	451,111	16,543	0	467,654
Vehicles	980,291	108,924	0	1,089,215
<b>Total</b>	<b>\$2,272,825</b>	<b>\$125,467</b>	<b>\$0</b>	<b>\$2,398,292</b>

**Note 11 - Note Debt**

Changes in the City's note activity for the year ended December 31, 1998, were as follows:

	Outstanding 12/31/97	Additions	(Reductions)	Outstanding 12/31/98
Fire Truck Tax Anticipation Note - 4.49%	\$300,000	\$0	(\$300,000)	\$0

The note was backed by the full faith and credit of the City. The note liability was reflected in the fire levy special revenue fund, the fund which received the proceeds.

**Note 12 - Long-term Obligations**

The original issuance amounts for the City's long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
<b>Enterprise Funds</b>			
Ohio Public Works Commission			
West Main Street	0%	\$197,240	2014
North High Street	0	352,685	2018
South Mecca	0	531,178	2016
<b>General Long Term Obligations</b>			
General Obligation Bond:			
Municipal Building Bonds	7.125	800,000	2006

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

Changes in long-term obligations of the City during 1998 were as follows:

	<u>Outstanding 12/31/97</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Outstanding 12/31/98</u>
<b>Enterprise Fund Obligations:</b>				
Ohio Public Works Commission Loans				
1993 0%				
West Main Street	\$138,199	\$0	\$8,638	\$129,561
1998 0%				
North High Street	0	352,685	17,634	335,051
1995 0%				
South Mecca	<u>441,978</u>	<u>0</u>	<u>25,257</u>	<u>416,721</u>
<i>Total Enterprise Fund Obligations</i>	<u>580,177</u>	<u>352,685</u>	<u>51,529</u>	<u>881,333</u>
<b>General Long-Term Obligations:</b>				
General Obligation Bonds				
1996 7.125%				
Municipal Building	400,000	0	40,000	360,000
Compensated Absences	41,489	0	2,140	39,349
Capital Lease	0	59,544	16,244	43,300
Intergovernmental Payable	<u>40,850</u>	<u>38,173</u>	<u>40,850</u>	<u>38,173</u>
<i>Total General Long- Term Obligations</i>	<u>482,339</u>	<u>97,717</u>	<u>99,234</u>	<u>480,822</u>
<i>Total All Types</i>	<u>\$1,062,516</u>	<u>\$450,402</u>	<u>\$150,763</u>	<u>\$1,362,155</u>

OPWC loans will be paid from sewer enterprise fund user service charges. General obligation bonds will be paid from the proceeds of property tax. Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases were paid from the special revenue fund. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee is paid.

The City's overall legal debt margin was \$9,816,089 at December 31, 1998. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1998, are as follows:

**City of Cortland, Ohio**

*Notes to The General Purpose Financial Statements  
For The Year Ended December 31, 1998*

	Ohio Public Works Commission	General Obligation Bonds
1999	\$51,527	\$62,800
2000	51,527	59,950
2001	51,527	57,100
2002	51,527	54,250
2003	51,527	51,400
2004-2008	257,635	137,100
2009-2013	257,635	0
2014-2017	108,428	0
<b>Totals</b>	<b>\$881,333</b>	<b>\$422,600</b>

**Note 13 - Employee Benefits**

*A. Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee hired before January 1, 1990, can be paid a maximum of 960 hours of accumulated, unused sick leave. Employees hired after January 1, 1990, can be paid a maximum of 650 hours. As of December 31, 1998, the liability for unpaid compensated absences was \$54,022 for the entire City.

**Note 14 - Defined Benefit Pension Plans**

*A. Public Employees Retirement System*

All City full-time employees, other than Police and Firemen, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 9.35 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1998, 1997 and 1996 were \$46,784, \$44,719, and \$41,918 respectively. The full amount has been contributed for 1997 and 1996. 77.84 percent has been contributed for 1998 with the remainder being reported as a liability within the enterprise funds and the general long-term obligations group.

*B. Police and Firemen's Disability And Pension*

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by PFDPF's Board of Trustees. PFDPF



## City of Cortland, Ohio

### Notes to The General Purpose Financial Statements For The Year Ended December 31, 1998

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provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. PFDPF issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$58,816 and \$62,967 for the year ended December 31, 1998, \$57,954 and \$54,827 for 1997 and \$54,077 and \$51,159 for 1996. The full amount has been contributed for 1997 and 1996. 76.45 and 77.53 percent, respectively, have been contributed for 1998 with the remainder being reported as a liability within the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the Statewide pension system for police and firefighters in 1967. As of December 31, 1998, the unfunded liability of the City was \$38,173, payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

#### **Note 15 - Postemployment Benefits**

##### ***A. Public Employees Retirement System (PERS)***

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1998 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care. For 1997, the percent used to fund health care was 5.11 percent.

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1998, OPEB expenditures made by PERS were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. At December 31, 1998, the total number of benefit recipients eligible for OPEB through PERS was 115,579. The City's actual contributions for 1998 which were used to fund OPEB were \$20,823.

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equaled 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health coverage.

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

**B. Police and Firemen's Disability Pension Fund**

The Police and Firemen's Disability and Pension Fund (the "Fund") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.5 percent of covered payroll is applied to the postemployment health care program. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 1998 that were used to fund postemployment benefits were \$19,605 for police and \$17,053 for fire. PFDPF's total health care expenses for the year ending December 31, 1997, (the latest information available) were \$76,459,832. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1997, was 11,239 for police and 9,025 for firefighters.

**Note 16 - 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. During 1998, the City contracted with several companies for various types of insurance as follows:

Company	Type	Deductible
Personal Service Insurance Company	Commercial Automobile	\$250
	Public Officials Liability	1,000
	Commercial Inland Marine	500
	Commercial Property	500
	Commercial Crime	None
Cincinnati Insurance Company	Bonds - Employees and Officials	None
American Alternative Insurance Corporation	General Fire Liability/Rescue	None

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

**Note 17 - Segment Information**

The City's enterprise funds account for the provision of sewer and water services. The table below reflects, in a summarized format, the more significant data relating to the enterprise funds of the City of Cortland as of and for the year ended December 31, 1998:

	Sewer Fund	Water Fund	Total
Operating Revenues	\$930,110	\$397,268	\$1,327,378
Depreciation	162,164	207,485	369,649
Operating Income	521,385	78,022	599,407
Net Income	525,478	78,022	603,500
Net Working Capital	291,413	137,061	428,474
Total Assets	1,638,741	714,114	2,352,855
Long-Term Liabilities	552,326	342,323	894,649
Fixed Asset Additions	586,948	576,462	1,163,410
Total Equity	791,427	350,344	1,141,771
Encumbrances	47	3,113	3,160

**Note 18 - Interfund Transactions**

Advances to other funds/Advances from other funds balances at December 31, 1998, consist of \$72,000 owed to the sewer enterprise fund by the police levy special revenue fund.

Interfund payable/Interfund receivable balances at December 31, 1998, consist of \$54,582 owed to the general fund by the sewer enterprise fund.

**Note 19 - Jointly Governed Organizations**

**A. Eastgate Development and Transportation Agency**

The Eastgate Development and Transportation Agency (EDATA) is a jointly governed organization that is committed to foster cooperated regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representative from Trumbull County, Mahoning County, township trustees and participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each agency. Funding comes from each of the participants. For 1998, the City contributed \$1,417 to the Eastgate Development and Transportation Agency.

**B. Emergency Management Agency**

The Emergency Management Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County. The eight members of the advisory board are appointed by the thirty-four

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hires and fires its own staff. Funding comes from each of the participants. For 1998, the City contributed \$907 to the Emergency Management Agency.

**Note 20 - Capital Leases**

During 1998, the City entered into a lease agreement for a vehicle which is accounted for on a GAAP basis as a security of persons and property expenditure in the Police Levy Special Revenue Fund, with an offsetting amount reported as an other financing source. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the general purpose financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

<u>Year</u>	<u>General Long-Term Obligation</u>
1999	\$16,244
2000	16,244
2001	16,244
Total minimum lease payments	48,732
Less: Amount representing interest	<u>(5,432)</u>
Present value of minimum lease payments	<u>\$43,300</u>

**Note 21 - Year 2000 Issue**

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal 1999.

The issue of Year 2000 Compliance has been addressed by the City of Cortland. All computer hardware and software has been reviewed and tested, and the City does not anticipate any difficulties with the payroll, budgetary or utility billing processes, nor interruptions with providing water and sanitary sewer services.

Year 2000 problems in drinking water and wastewater treatment systems can occur in computers, computer software, and in systems that use computerized controls. The systems used by the City to operate pumps and lift stations are essentially mechanical in nature and will not be threatened by the millennium bug.

**City of Cortland, Ohio**  
*Notes to The General Purpose Financial Statements*  
*For The Year Ended December 31, 1998*

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The City does rely on the electric utility companies to supply power for their pump and lift station operations. However, the impacts on electrical systems appear to be less than expected, according to the North American Reliability Council's (NERC) first status report. The City also has backup generators for their pumps and lift stations in the event that the electric utility companies cannot supply power.

The City has on file a community water contingency plan which is to be followed in the event of emergency conditions. The community will be notified that a water emergency exists by public service announcements and local neighborhood notification. Residents will be asked to curtail their usage of water. Water supply necessary is approximately 65,000 gallons per day (6,500 - persons at 10 GPCD). With storage facilities of 100,000 gallons, 320,000 gallons, and 400,000 gallons, the City should have enough water in storage to service the community under emergency conditions.

*Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.*



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Members of City Council  
City of Cortland  
Cortland, Ohio 44410

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the City of Cortland as of and for the year ended December 31, 1998, and have issued our report thereon dated June 24, 1999. Our report on the financial statements included an explanatory paragraph noting the City made certain changes in accounting for its deferred compensation program. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Cortland in a separate report dated June 24, 1999.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City of Cortland in a separate letter dated June 24, 1999.

Members of City Council  
City of Cortland  
Report of Independent Accountants on Compliance and on Internal Control Required by  
*Government Auditing Standards*

This report is intended for the information and use of management, the audit committee and city council and is not intended to be and should not be used by anyone other than those specified parties.



Jim Petro  
Auditor of State

June 24, 1999



STATE OF OHIO  
OFFICE OF THE AUDITOR

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CITY OF CORTLAND - TRUMBULL 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.

By: Susan Babbitt  
Clerk of the Bureau

Date: FEB 08 2000