

**CITY OF CORTLAND
TRUMBULL COUNTY**

REGULAR

FOR THE YEAR ENDED DECEMBER 31, 1997

City of Cortland, Ohio
General Purpose Financial Statements
For the Year Ended December 31, 1997
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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, 1997, 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, 1997 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.

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.

As more fully described in Note 3 to the general purpose financial statements, certain changes in accounting policies and financial reporting practices were made in order to present the aforementioned *general purpose financial statements in conformity with generally accepted accounting principles*. Such changes were adopted effective January 1, 1997 and to implement those changes, adjustments were made to restate fund balances and retained earnings as of that date.



JIM PETRO
Auditor of State

June 24, 1999

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City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 1997

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<i>Assets and Other Debits</i>			
Assets			
Equity in Pooled Cash and Cash and Cash Equivalents	\$281,159	\$584,218	\$35,152
Receivables:			
Taxes	375,106	1,104,088	52,180
Accounts	709	22,445	0
Accrued Interest	310	0	0
Intergovernmental Receivable	35,239	25,345	0
Advances to Other Funds	0	0	0
Funds on Deposit with Deferred Compensation Boards	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits			
Amount Available in Debt Service			
Fund for Retirement of General Obligation Bonds	0	0	0
Amount to be Provided from General Government Resources	0	0	0
<i>Total Assets and Other Debits</i>	\$692,523	\$1,736,096	\$87,332

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$78,502	\$0	\$0	\$0	\$979,031
0	0	0	0	1,531,374
177,323	0	0	0	200,477
0	0	0	0	310
0	0	0	0	60,584
96,000	0	0	0	96,000
0	95,880	0	0	95,880
800,828	0	2,272,825	0	3,073,653
0	0	0	35,152	35,152
0	0	0	447,187	447,187
<u>\$1,152,653</u>	<u>\$95,880</u>	<u>\$2,272,825</u>	<u>\$482,339</u>	<u>\$6,519,648</u>

(continued)

City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 1997

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<i>Liabilities, Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$1,582	\$10,194	\$0
Accrued Wages	2,635	14,684	0
Compensated Absences Payable	94	1,019	0
Intergovernmental Payable	1,627	7,596	0
Deferred Revenue	375,106	1,104,088	52,180
Accrued Interest Payable	0	7,109	0
Notes Payable	0	300,000	0
Deferred Compensation Payable	0	0	0
Advances from Other Funds	0	96,000	0
OPWC Loans Payable	0	0	0
General Obligation Bonds Payable	0	0	0
<i>Total Liabilities</i>	381,044	1,540,690	52,180
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	23,193	9,009	0
Unreserved, Undesignated	288,286	186,397	35,152
<i>Total Fund Equity and Other Credits</i>	311,479	195,406	35,152
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$692,523	\$1,736,096	\$87,332

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$2,654	\$0	\$0	\$0	\$14,430
4,370	0	0	0	21,689
16,361	0	0	41,489	58,963
10,821	0	0	40,850	60,894
0	0	0	0	1,531,374
0	0	0	0	7,109
0	0	0	0	300,000
0	95,880	0	0	95,880
0	0	0	0	96,000
580,176	0	0	0	580,176
0	0	0	400,000	400,000
<u>614,382</u>	<u>95,880</u>	<u>0</u>	<u>482,339</u>	<u>3,166,515</u>
0	0	2,272,825	0	2,272,825
21,508	0	0	0	21,508
516,763	0	0	0	516,763
0	0	0	0	32,202
0	0	0	0	509,835
<u>538,271</u>	<u>0</u>	<u>2,272,825</u>	<u>0</u>	<u>3,353,133</u>
<u>\$1,152,653</u>	<u>\$95,880</u>	<u>\$2,272,825</u>	<u>\$482,339</u>	<u>\$6,519,648</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, 1997*

	Governmental	
	General	Special Revenue
Revenues		
Property and Other Taxes	\$367,812	\$1,060,039
Charges for Services	0	54,280
Licenses, Permits and Fees	77,027	49,662
Fines and Forfeitures	6,518	998
Intergovernmental	185,974	338,945
Interest	52,449	2,776
Contributions and Donations	0	250
Other	4,868	17,512
<i>Total Revenues</i>	<u>694,648</u>	<u>1,524,462</u>
Expenditures		
Current:		
General Government	389,809	0
Security of Persons and Property	13,347	1,478,180
Public Health and Welfare	12,134	919
Transportation	0	203,388
Community Environment	26,149	18,757
Basic Utility Services	14,838	0
Leisure Time Activities	23,119	0
Other	58,649	0
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	7,268
Interest and Fiscal Charges	0	7,654
<i>Total Expenditures</i>	<u>538,045</u>	<u>1,716,166</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>156,603</u>	<u>(191,704)</u>
Other Financing Sources (Uses)		
Operating Transfers In	0	0
Operating Transfers Out	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(100,000)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	56,603	(191,704)
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	<u>254,876</u>	<u>387,110</u>
<i>Fund Balances End of Year</i>	<u>\$311,479</u>	<u>\$195,406</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$58,235	\$0	\$1,486,086
0	0	54,280
0	0	126,689
0	0	7,516
6,990	402,915	934,824
0	0	55,225
0	0	250
0	0	22,380
<u>65,225</u>	<u>402,915</u>	<u>2,687,250</u>
0	0	389,809
0	0	1,491,527
0	0	13,053
0	0	203,388
0	0	44,906
0	0	14,838
0	0	23,119
0	0	58,649
0	565,697	565,697
40,000	0	47,268
30,111	0	37,765
<u>70,111</u>	<u>565,697</u>	<u>2,890,019</u>
<u>(4,886)</u>	<u>(162,782)</u>	<u>(202,769)</u>
0	100,000	100,000
0	0	(100,000)
<u>0</u>	<u>100,000</u>	<u>0</u>
(4,886)	(62,782)	(202,769)
<u>40,038</u>	<u>62,782</u>	<u>744,806</u>
<u>\$35,152</u>	<u>\$0</u>	<u>\$542,037</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, 1997*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Property and Other Taxes	\$362,700	\$367,812	\$5,112
Charges for Services	0	0	0
Licenses, Permits and Fees	70,750	77,027	6,277
Fines and Forfeitures	8,000	6,238	(1,762)
Intergovernmental	152,250	185,403	33,153
Interest	39,168	52,742	13,574
Contributions and Donations	0	0	0
Other	5,000	4,868	(132)
<i>Total Revenues</i>	<u>637,868</u>	<u>694,090</u>	<u>56,222</u>
Expenditures			
Current:			
General Government	473,678	417,786	55,892
Security of Persons and Property	25,368	13,347	12,021
Public Health and Welfare	15,000	12,134	2,866
Transportation	0	0	0
Community Environment	37,018	26,248	10,770
Basic Utility Services	25,000	14,638	10,362
Leisure Time Activities	37,250	25,463	11,787
Other	132,950	58,649	74,301
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>746,264</u>	<u>568,265</u>	<u>177,999</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(108,396)</u>	<u>125,825</u>	<u>234,221</u>
Other Financing Sources (Uses)			
Proceeds of Notes	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(100,000)	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(208,396)</u>	<u>25,825</u>	<u>234,221</u>
<i>Fund Balances Beginning of Year</i>	208,397	208,397	0
Prior Year Encumbrances Appropriated	23,050	23,050	0
<i>Fund Balances End of Year</i>	<u>\$23,051</u>	<u>\$257,272</u>	<u>\$234,221</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,066,250	\$1,060,039	(\$6,211)	\$55,953	\$58,235	\$2,282
31,500	31,983	483	0	0	0
40,000	49,662	9,662	0	0	0
1,500	897	(603)	0	0	0
299,750	337,332	37,582	9,000	6,990	(2,010)
2,500	2,776	276	0	0	0
500	250	(250)	0	0	0
8,812	17,512	8,700	0	0	0
<u>1,450,812</u>	<u>1,500,451</u>	<u>49,639</u>	<u>64,953</u>	<u>65,225</u>	<u>272</u>
0	0	0	0	0	0
1,930,981	1,477,982	452,999	0	0	0
3,042	919	2,123	0	0	0
243,439	208,642	34,797	0	0	0
23,290	18,812	4,478	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
8,000	7,268	732	40,000	40,000	0
545	545	0	64,991	30,111	34,880
<u>2,209,297</u>	<u>1,714,168</u>	<u>495,129</u>	<u>104,991</u>	<u>70,111</u>	<u>34,880</u>
<u>(758,485)</u>	<u>(213,717)</u>	<u>544,768</u>	<u>(40,038)</u>	<u>(4,886)</u>	<u>35,152</u>
300,000	300,000	0	0	0	0
(24,000)	(24,000)	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>276,000</u>	<u>276,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(482,485)	62,283	544,768	(40,038)	(4,886)	35,152
484,635	484,635	0	40,038	40,038	0
27,276	27,276	0	0	0	0
<u>\$29,426</u>	<u>\$574,194</u>	<u>\$544,768</u>	<u>\$0</u>	<u>\$35,152</u>	<u>\$35,152</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, 1997*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
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	412,750	402,915	(9,835)
Interest	0	0	0
Contributions and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>412,750</u>	<u>402,915</u>	<u>(9,835)</u>
Expenditures			
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
Other	0	0	0
Capital Outlay	577,782	565,697	12,085
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>577,782</u>	<u>565,697</u>	<u>12,085</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(165,032)</u>	<u>(162,782)</u>	<u>2,250</u>
Other Financing Sources (Uses)			
Proceeds of Notes	0	0	0
Advances Out	0	0	0
Operating Transfers In	100,000	100,000	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>100,000</u>	<u>100,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(65,032)</u>	<u>(62,782)</u>	<u>2,250</u>
<i>Fund Balances Beginning of Year</i>	62,782	62,782	0
Prior Year Encumbrances Appropriated	0	0	0
<i>Fund Balances End of Year</i>	<u>(\$2,250)</u>	<u>\$0</u>	<u>\$2,250</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,484,903	\$1,486,086	\$1,183
31,500	31,983	483
110,750	126,689	15,939
9,500	7,135	(2,365)
873,750	932,640	58,890
41,668	55,518	13,850
500	250	(250)
13,812	22,380	8,568
<u>2,566,383</u>	<u>2,662,681</u>	<u>96,298</u>
473,678	417,786	55,892
1,956,349	1,491,329	465,020
18,042	13,053	4,989
243,439	208,642	34,797
60,308	45,060	15,248
25,000	14,638	10,362
37,250	25,463	11,787
132,950	58,649	74,301
577,782	565,697	12,085
48,000	47,268	732
65,536	30,656	34,880
<u>3,638,334</u>	<u>2,918,241</u>	<u>720,093</u>
<u>(1,071,951)</u>	<u>(255,560)</u>	<u>816,391</u>
300,000	300,000	0
(24,000)	(24,000)	0
100,000	100,000	0
(100,000)	(100,000)	0
<u>276,000</u>	<u>276,000</u>	<u>0</u>
(795,951)	20,440	816,391
795,852	795,852	0
50,326	50,326	0
<u>\$50,227</u>	<u>\$866,618</u>	<u>\$816,391</u>

City of Cortland, Ohio
*Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For The Year Ended December 31, 1997*

	<u>Enterprise</u>
Operating Revenues	
Charges for Services	\$1,074,822
Tap-In Fees	64,524
Other	17,929
	<u>1,157,275</u>
 Operating Expenses	
Personal Services	309,874
Contractual Services	814,278
Materials and Supplies	140,939
Depreciation	413,497
	<u>1,678,588</u>
 <i>Net Loss</i>	 (521,313)
 <i>Retained Earnings Beginning of Year (Restated - Note 3)</i>	 <u>1,038,076</u>
 <i>Retained Earnings End of Year</i>	 <u>516,763</u>
 Contributions During Year:	
Tap-In Fees	<u>21,508</u>
 Contributed Capital End of Year	 <u>21,508</u>
 <i>Total Fund Equity End of Year</i>	 <u><u>\$538,271</u></u>

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, 1997*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$1,091,000	\$1,116,203	\$25,203
Tap-In Fees	89,500	86,032	(3,468)
Other	5,500	17,929	12,429
<i>Total Revenues</i>	<u>1,186,000</u>	<u>1,220,164</u>	<u>34,164</u>
Expenses			
Personal Services	324,600	307,872	16,728
Contractual Services	924,561	906,158	18,403
Materials and Supplies	185,850	151,671	34,179
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	35,200	33,893	1,307
<i>Total Expenses</i>	<u>1,470,211</u>	<u>1,399,594</u>	<u>70,617</u>
<i>Excess of Revenues Under Expenses</i>	(284,211)	(179,430)	104,781
Advances In	24,000	24,000	0
<i>Excess of Revenues Under Expenses and Advances</i>	(260,211)	(155,430)	104,781
<i>Fund Equity Beginning of Year</i>	140,211	140,211	0
Prior Year Encumbrances Appropriated	80,389	80,389	0
<i>Fund Equity (Deficit) End of Year</i>	<u>(\$39,611)</u>	<u>\$65,170</u>	<u>\$104,781</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, 1997

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,116,203
Cash Received from Tap-In Fees	64,524
Cash Payments to Suppliers for Goods and Services	(139,101)
Cash Payments for Contractual Services	(904,820)
Cash Payments for Employee Services and Benefits	(307,872)
Other Cash Receipts	17,929
	<u>(153,137)</u>
Cash Flows from Noncapital Financing Activities	
Advance In	24,000
	<u>24,000</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Fixed Assets	(576)
Tap-In Fees	21,508
Principal Payments - OPWC Loans	(33,893)
	<u>(12,961)</u>
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(12,961)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(142,098)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>220,600</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$78,502</u>
 Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
<i>Operating Loss</i>	(\$521,313)
<i>Adjustments:</i>	
Depreciation	413,497
Decrease in Accounts Receivable:	41,381
Increase/(Decrease) in Liabilities:	
Accounts Payable	(76,710)
Accrued Wages	806
Compensated Absences Payable	4,727
Intergovernmental Payable	(15,525)
	<u>(153,137)</u>
<i>Net Cash Used in Operating Activities</i>	<u>(\$153,137)</u>

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, 1997

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.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government 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.

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

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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.

Fiduciary Fund Type Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The City has no trust funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

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.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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.

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 and agency funds 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, 1997, 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.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
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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 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 1997.

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, purchase 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.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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 City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet. Investment procedures are restricted by the provisions of the Ohio Revised Code. All investment earnings accrue to the general fund except those specifically related to certain special revenue funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments with an original maturity of three months or less and cash and investments in the cash management pool are considered to be cash equivalents.

E. 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.

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

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 1997, interest costs incurred on construction projects in the proprietary funds were not material.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

F. 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.

G. 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 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.

H. 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 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.

I. 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."

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
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J. 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.

K. 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, results of operations or cash flows 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.

L. 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 could differ from those estimates.

Note 3 - Restatement of Prior Year's Fund Equity

For the year ended December 31, 1997, the City has presented for the first time financial statements by fund type and account group in accordance with generally accepted accounting principles.

In conjunction with this presentation, the City has changed its basis of accounting from a cash basis to the modified accrual basis of accounting for its governmental and agency funds and to the accrual basis for its proprietary funds. This change required that certain adjustments be recorded to the January 1, 1997, fund balances/retained earnings as previously reported to reflect the prior year's effect of adopting these new accounting principles.

The restatements to the opening fund balances/retained earnings are as follows:

Fund Type/Fund	Previously Stated Balance at 12/31/96	Adjustments	Restated Balance at 1/1/97
Governmental Funds:			
General	\$231,011	\$23,865	\$254,876
Special Revenue	507,612	(120,502)	387,110
Debt Service	40,038	0	40,038
Capital Projects	59,527	3,255	62,782
Proprietary Funds:			
Enterprise	348,591	689,485	1,038,076

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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. For the proprietary fund, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions.

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

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	\$56,603	(\$191,704)	(\$4,886)	(\$62,782)
Net Adjustment for				
Revenue Accruals	(558)	(24,011)	0	0
Proceeds of Notes	0	300,000	0	0
Net Adjustment for				
Expenditure Accruals	(6,333)	12,022	0	0
Advance Out	0	(24,000)	0	0
Encumbrances	(23,887)	(10,024)	0	0
Budget Basis	<u>\$25,825</u>	<u>\$62,283</u>	<u>(\$4,886)</u>	<u>(\$62,782)</u>

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
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Net Loss/Excess of Revenues Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	(\$521,313)
Net Adjustment for	
Revenue Accruals	40,805
Tap-In Fees	21,508
Advances In	24,000
Net Adjustment for	
Expense Accruals	(86,702)
Principal Retirement	(33,893)
Capital Outlay	0
Depreciation	413,497
Encumbrances	(13,332)
Budget Basis	(\$155,430)

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.

Fund	Estimated Resources	Appropriations	Excess
State Grant Special Revenue Fund	\$28,565	\$28,665	\$100
Issue II Capital Projects Fund	575,532	577,782	2,250
Sewer Enterprise Fund	967,015	995,318	28,303

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

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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).

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.

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.

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.

GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

Deposits At year-end, the carrying amount of the City's deposits was \$79,031 and the bank balance was \$137,062. Of the bank balance:

1. \$113,000 was covered by federal depository insurance.

City of Cortland, Ohio
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2. \$24,062 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 Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name.

STAR Ohio and Deferred Compensation are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The investments in STAR Ohio have a carrying value and a market value of \$900,000. Investment in Deferred Compensation has a carrying value and market value of \$95,880.

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 which classifies investments with original maturities of three months or less as cash equivalents.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$979,031	\$95,880
Investments:		
STAR Ohio	(900,000)	900,000
GASB Statement 3	\$79,031	\$995,880

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.

City of Cortland, Ohio
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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, 1997, was \$20.86 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1997 property tax receipts were based are as follows:

Real Property	\$84,538,730
Public Utility Property	3,422,930
Tangible Personal Property	4,827,821
Total Valuation	\$92,789,481

Note 8 - Receivables

Receivables at December 31, 1997, 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.

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund:	\$35,239
Special Revenue Funds:	
Street Construction, Maintenance and Repair	13,486
COPS Grant	7,637
Permissive Tax	2,401
State Highway	1,094
State Grant	727
Total Special Revenue Funds	25,345
Total	\$60,584

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, 1997.

B. Litigation

The City of Cortland is not party to legal proceedings.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

Note 10 - Fixed Assets

A summary of the enterprise funds' property, plant and equipment at December 31, 1997, follows:

Land	\$687
Water and Sewer Lines	3,667,415
Equipment	20,799
Total	<u>3,688,901</u>
Less: Accumulated Depreciation	<u>(2,888,073)</u>
Net Fixed Assets	<u>\$800,828</u>

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, 1997	Additions	Deductions	Balance December 31, 1997
Land	\$6,476	\$0	\$0	\$6,476
Buildings	834,947	0	0	834,947
Equipment	433,895	17,216	0	451,111
Vehicles	580,978	399,313	0	980,291
Total	<u>\$1,856,296</u>	<u>\$416,529</u>	<u>\$0</u>	<u>\$2,272,825</u>

Note 11 - 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
Enterprise Funds			
Ohio Public Works Commission			
West Main Street	0%	\$197,240	2014
South Mecca	0%	531,178	2016
General Long Term Obligations			
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, 1997

Changes in long-term obligations of the City during 1997 were as follows:

	<u>Outstanding 12/31/96</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Outstanding 12/31/97</u>
Enterprise Fund Obligations:				
Ohio Public Works Commission Loans				
1993 0%				
West Main Street	\$146,846	\$0	\$8,638	\$138,208
1995 0%				
South Mecca	<u>467,223</u>	<u>0</u>	<u>25,255</u>	<u>441,968</u>
<i>Total Enterprise Fund Obligations</i>	<u>614,069</u>	<u>0</u>	<u>33,893</u>	<u>580,176</u>
General Long-Term Obligations:				
General Obligation Bonds				
1996 7.125%				
Municipal Building	440,000	0	40,000	400,000
Compensated Absences	47,432	0	5,943	41,489
Capital Lease	7,268	0	7,268	0
Intergovernmental Payable	<u>39,471</u>	<u>40,850</u>	<u>39,471</u>	<u>40,850</u>
<i>Total General Long- Term Obligations</i>	<u>534,171</u>	<u>40,850</u>	<u>92,682</u>	<u>482,339</u>
<i>Total All Types</i>	<u>\$1,148,240</u>	<u>\$40,850</u>	<u>\$126,575</u>	<u>\$1,062,515</u>

General obligation bonds will be paid from the proceeds of property tax. Compensated absences and intergovernmental payables will be paid from the fund from which the employees' salaries are paid. Capital leases were paid from various revenues from the special revenue fund. OPWC loans will be paid from sewer enterprise fund user service charges.

The City's overall legal debt margin was \$9,342,896 at December 31, 1997. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1997, are as follows:

	<u>Ohio Public Works Commission</u>	<u>General Obligation Bonds</u>
1998	\$33,894	\$65,650
1999	33,894	62,800
2000	33,894	59,950
2001	33,894	57,100
2002	33,735	54,250
2003-2007	169,470	188,500
2008-2012	169,470	0
2013-2017	<u>71,925</u>	<u>0</u>
Totals	<u>\$580,176</u>	<u>\$488,250</u>

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

Note 12 - Employee Benefits

A. Deferred Compensation Plan

City employees and elected officials participate in the Ohio Public Employees Deferred Compensation Program (Ohio Plan). The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The Plan Agreement states that the City and the Ohio Public Employees Deferred Compensation Board have no liability for losses under the plan with the exception of fraud or wrongful taking.

An agency fund has been established to account for these moneys as prescribed by Governmental Accounting Standards Board Statement No. 2, "Financial Reporting of Deferred Compensation Plans adopted under the Provisions of Internal Revenue Code Section 457." As of December 31, 1997, the amount on deposit with the Ohio Public Employees Deferred Compensation Board was \$95,880, valued at market.

B. 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, 1997, the liability for unpaid compensated absences was \$58,963 for the entire City.

Note 13 - 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.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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 8.44 percent. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ending December 31, 1997, 1996 and 1995 were \$44,719, \$41,918, and \$37,329 respectively. The full amount has been contributed for 1996 and 1995. 70.99 percent has been contributed for 1997 with the remainder being reported as a liability in 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 (the "Fund"), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. The Fund 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. The Fund issues a publicly available financial report that includes financial information and required supplementary information for the Fund. 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 \$57,954 and \$54,827 for the year ended December 31, 1997, \$54,077 and \$51,159 for 1996 and \$47,540 and \$44,975 for 1995. The full amount has been contributed for 1996 and 1995. 73.74 and 70.22 percent, respectively, have been contributed for 1997 with the remainder being reported as a liability within the general long-term obligations account group.

Note 14 - 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 1997 employer contribution rate was 13.55 percent of covered payroll for employees; 5.11 percent was the portion that was used to fund health care for the year 1997. Effective January 1, 1998, 4.2 percent of the employer contribution will be used to fund health care.

For 1997, benefits were funded on a pay-as-you-go basis. Prior to 1997, benefits were advanced funded using the entry age normal costing method. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care, 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 1997, OPEB expenditures made by PERS were \$393,559,827. As of December 31, 1997, the unaudited estimated net assets available for future OPEB payments were \$8,292,570,002. At December 31, 1997, the total number of benefit recipients eligible for OPEB through PERS was 113,906. The City's actual contributions for 1997 which were used to fund OPEB were \$45,035.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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 number of participants eligible to receive health care benefits as of December 31, 1996, was 17,493 for police and 14,120 for firefighters. The City's actual contributions for 1997 that were used to fund postemployment benefits were \$19,318 for police and \$14,849 for fire. The Fund's total health care expenses for the year ending December 31, 1996, (the latest information available) were \$71,674,335.

Note 15 - 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 1997, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Deductible</u>
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.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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.

Note 16 - 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, 1997:

	Sewer Fund	Water Fund	Total
Operating Revenues	\$767,780	\$389,495	\$1,157,275
Operating Expenses			
Before Depreciation	851,880	413,211	1,265,091
Depreciation Expense	162,124	251,373	413,497
Operating Loss	(246,224)	(275,089)	(521,313)
Current Capital Contributions	7,920	13,588	21,508
Net Working Capital	223,654	92,965	316,619
Total Assets	860,824	291,829	1,152,653
Long-Term Liabilities	587,592	8,945	596,537
Total Equity	265,949	272,322	538,271
Encumbrances	6,051	7,281	13,332

Note 17 - Interfund Transactions

Advances to other funds/Advances from other fund balances at December 31, 1997, consist of \$96,000 owed to the sewer enterprise fund by the police levy special revenue fund.

Note 18 - Note Debt

During 1997, the City issued a twelve month \$300,000 tax anticipation note at 4.49%. This note is backed by the full faith and credit of the City of Cortland. The note liability is reflected in the fire levy special revenue fund, the fund which received the proceeds.

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 1997, the City contributed \$1,417 to the Eastgate Development and Transportation Agency.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1997

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 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 1997, the City contributed \$907 to the Emergency Management Agency.

Note 20 - 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.

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, 1997, 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 policies and financial reporting practices in order to present the general purpose financial statements in conformity with generally accepted accounting principles. 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 in a separate letter 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.

Members of City Council
City of Cortland
Report 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.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a circular stamp or seal.

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