

CITY OF CORTLAND, OHIO

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

For the Year Ended December 31, 2003



**Auditor of State
Betty Montgomery**

City Council
City of Cortland
400 N. High Street
Cortland, Ohio 44410

We have reviewed the *Report of Independent Accountants* of the City of Cortland, Trumbull County, prepared by Packer Thomas, for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 7, 2006

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City of Cortland, Ohio
General Purpose Financial Statements
For the Year Ended December 31, 2003
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REPORT OF INDEPENDENT ACCOUNTANTS

City of Cortland
Trumbull County
Cortland, Ohio

We have audited the accompanying combined general-purpose financial statements of the City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These combined general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these combined general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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 combined general-purpose financial statements referred to above present fairly, in all material respects, the combined financial position of the City of Cortland, Trumbull County, as of December 31, 2003, and the combined results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Youngstown, Ohio
September 2, 2005

City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<i>Assets and Other Debits</i>			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$866,642	\$513,807	\$29,063
Receivables:			
Taxes	466,001	1,410,171	39,209
Accounts	367	51,095	0
Accrued Interest	37	0	0
Intergovernmental	131,507	343,142	2,295
Interfund	51,622	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>	\$1,516,176	\$2,318,215	\$70,567

See accompanying notes to the combined general purpose financial statements

Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Enterprise			
\$844,605	\$0	\$0	\$2,254,117
0	0	0	1,915,381
317,303	0	0	368,765
0	0	0	37
0	0	0	476,944
0	0	0	51,622
9,308,581	2,655,672	0	11,964,253
0	0	29,063	29,063
0	0	249,227	249,227
<u>\$10,470,489</u>	<u>\$2,655,672</u>	<u>\$278,290</u>	<u>\$17,309,409</u>

(continued)

City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<i>Liabilities,</i>			
<i>Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$6,351	\$2,795	\$0
Accrued Wages and Benefits	6,790	41,804	0
Compensated Absences Payable	513	5,394	0
Intergovernmental Payable	4,468	22,361	0
Deferred Revenue	570,234	1,676,997	41,504
Interfund Payable	0	51,622	0
Capital Leases Payable	0	0	0
OPWC Loans Payable	0	0	0
General Obligation Bonds Payable	0	0	0
	Total Liabilities	1,800,973	41,504
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	18,984	41,341	0
Unreserved, Undesignated	908,836	475,901	29,063
	Total Fund Equity and Other Credits	517,242	29,063
	Total Liabilities, Fund Equity and Other Credits	\$2,318,215	\$70,567

See accompanying notes to the combined general purpose financial statements

Proprietary Fund Type	Account Groups			Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations		
Enterprise				
	\$2,285	\$0	\$0	\$11,431
	10,042	0	0	58,636
	10,667	0	86,729	103,303
	73,247	0	59,629	159,705
	0	0	0	2,288,735
	0	0	0	51,622
	0	0	11,932	11,932
	623,694	0	0	623,694
	0	0	120,000	120,000
	<u>719,935</u>	<u>0</u>	<u>278,290</u>	<u>3,429,058</u>
	0	2,655,672	0	2,655,672
	759,862	0	0	759,862
	8,990,692	0	0	8,990,692
	0	0	0	60,325
	0	0	0	1,413,800
	<u>9,750,554</u>	<u>2,655,672</u>	<u>0</u>	<u>13,880,351</u>
	<u>\$10,470,489</u>	<u>\$2,655,672</u>	<u>\$278,290</u>	<u>\$17,309,409</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, 2003*

	Governmental	
	General	Special Revenue
Revenues		
Property and Other Taxes	\$443,158	\$1,344,030
Charges for Services	14,553	148,647
Licenses, Permits and Fees	283,740	0
Fines and Forfeitures	7,003	1,027
Intergovernmental	318,534	662,501
Interest	28,534	0
Contributions and Donations	0	330
Other	0	25,313
	<u>1,095,522</u>	<u>2,181,848</u>
<i>Total Revenues</i>		
Expenditures		
Current:		
General Government	781,353	51,622
Security of Persons and Property	19,586	1,866,362
Public Health and Welfare	13,600	0
Transportation	0	349,472
Community Environment	39,368	21,973
Basic Utility Services	104,700	0
Leisure Time Activities	12,774	0
Debt Service:		
Principal Retirement	0	19,954
Interest and Fiscal Charges	0	767
	<u>971,381</u>	<u>2,310,150</u>
<i>Total Expenditures</i>		
<i>Excess of Revenues Over (Under) Expenditures</i>	124,141	(128,302)
Other Financing Sources		
Inception of Capital Lease	0	18,440
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	<u>124,141</u>	<u>(109,862)</u>
<i>Fund Balances Beginning of Year - as Previously Reported</i>	643,330	737,631
<i>Prior Period Adjustment (See Note 3)</i>	<u>160,349</u>	<u>(110,527)</u>
<i>Fund Balances Beginning of Year - as Restated</i>	<u>803,679</u>	<u>627,104</u>
<i>Fund Balances End of Year</i>	<u>\$927,820</u>	<u>\$517,242</u>

See accompanying notes to the combined general purpose financial statements

Fund Types		Totals
Debt Service	Capital Projects	(Memorandum Only)
\$37,312	\$0	\$1,824,500
0	0	163,200
0	0	283,740
0	0	8,030
4,589	0	985,624
0	0	28,534
0	0	330
0	0	25,313
<u>41,901</u>	<u>0</u>	<u>3,319,271</u>
1,253	0	834,228
0	0	1,885,948
0	0	13,600
0	0	349,472
0	0	61,341
0	0	104,700
0	0	12,774
40,000	0	59,954
<u>11,400</u>	<u>0</u>	<u>12,167</u>
<u>52,653</u>	<u>0</u>	<u>3,334,184</u>
(10,752)	0	(14,913)
0	0	18,440
<u>(10,752)</u>	<u>0</u>	<u>3,527</u>
39,815	49,822	1,470,598
<u>0</u>	<u>(49,822)</u>	<u>0</u>
<u>39,815</u>	<u>0</u>	<u>1,470,598</u>
<u>\$29,063</u>	<u>\$0</u>	<u>\$1,474,125</u>

City of Cortland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances (Non-GAAP Basis) - Budget and Actual
All Governmental Fund Types
For the Year Ended December 31, 2003*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Taxes	\$435,000	\$443,158	\$8,158
Charges for Services	13,400	14,995	1,595
Licenses, Permits and Fees	88,776	283,740	194,964
Fines and Forfeitures	10,000	7,003	(2,997)
Intergovernmental	335,191	327,916	(7,275)
Interest	20,000	28,691	8,691
Contributions and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>902,367</u>	<u>1,105,503</u>	<u>203,136</u>
Expenditures			
Current:			
General Government	1,192,189	838,457	353,732
Security of Persons and Property	22,000	20,958	1,042
Public Health and Welfare	14,000	13,600	400
Transportation	0	0	0
Community Environment	44,514	39,198	5,316
Basic Utility Services	220,500	104,700	115,800
Leisure Time Activities	32,975	28,366	4,609
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>1,526,178</u>	<u>1,045,279</u>	<u>480,899</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(623,811)</u>	<u>60,224</u>	<u>684,035</u>
Other Financing Sources (Uses)			
Advances In	40,000	40,000	0
Advances Out	(40,000)	(40,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(623,811)</u>	<u>60,224</u>	<u>684,035</u>
<i>Fund Balances Beginning of Year</i>	618,453	618,453	0
Prior Year Encumbrances Appropriated	<u>5,358</u>	<u>5,358</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$0</u></u>	<u><u>\$684,035</u></u>	<u><u>\$684,035</u></u>

See accompanying notes to the combined general purpose financial statements

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,342,231	\$1,344,030	\$1,799	\$34,799	\$37,312	\$2,513
168,500	183,490	14,990	0	0	0
0	0	0	0	0	0
1,500	1,127	(373)	0	0	0
493,500	598,817	105,317	7,000	4,589	(2,411)
0	0	0	0	0	0
500	330	(170)	0	0	0
8,500	25,413	16,913	0	0	0
<u>2,014,731</u>	<u>2,153,207</u>	<u>138,476</u>	<u>41,799</u>	<u>41,901</u>	<u>102</u>
0	0	0	30,547	1,586	28,961
2,206,429	1,861,879	344,550	0	0	0
6,881	0	6,881	0	0	0
478,083	393,856	84,227	0	0	0
28,048	21,973	6,075	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	40,000	40,000	0
0	0	0	11,400	11,400	0
<u>2,719,441</u>	<u>2,277,708</u>	<u>441,733</u>	<u>81,947</u>	<u>52,986</u>	<u>28,961</u>
<u>(704,710)</u>	<u>(124,501)</u>	<u>580,209</u>	<u>(40,148)</u>	<u>(11,085)</u>	<u>29,063</u>
40,000	40,000	0	0	0	0
(40,000)	(40,000)	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(704,710)	(124,501)	580,209	(40,148)	(11,085)	29,063
700,361	700,361	0	40,148	40,148	0
4,849	4,849	0	0	0	0
<u>\$500</u>	<u>\$580,709</u>	<u>\$580,209</u>	<u>\$0</u>	<u>\$29,063</u>	<u>\$29,063</u>

(continued)

City of Cortland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances (Non-GAAP Basis) - Budget and Actual
All Governmental Fund Types (continued)
For the Year Ended December 31, 2003*

	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	0	0	0
Interest	0	0	0
Contributions and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>0</u>	<u>0</u>	<u>0</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
Capital Outlay	49,822	0	49,822
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>49,822</u>	<u>0</u>	<u>49,822</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(49,822)</u>	<u>0</u>	<u>49,822</u>
Other Financing Sources (Uses)			
Advances In	0	0	0
Advances Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(49,822)</u>	<u>0</u>	<u>49,822</u>
<i>Fund Balances Beginning of Year</i>	49,822	49,822	0
Prior Year Encumbrances Appropriated	0	0	0
<i>Fund Balances End of Year</i>	<u>\$0</u>	<u>\$49,822</u>	<u>\$49,822</u>

See accompanying notes to the combined general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,812,030	\$1,824,500	\$12,470
181,900	198,485	16,585
88,776	283,740	194,964
11,500	8,130	(3,370)
835,691	931,322	95,631
20,000	28,691	8,691
500	330	(170)
8,500	25,413	16,913
<u>2,958,897</u>	<u>3,300,611</u>	<u>341,714</u>
1,222,736	840,043	382,693
2,228,429	1,882,837	345,592
20,881	13,600	7,281
478,083	393,856	84,227
72,562	61,171	11,391
220,500	104,700	115,800
32,975	28,366	4,609
49,822	0	49,822
40,000	40,000	0
11,400	11,400	0
<u>4,377,388</u>	<u>3,375,973</u>	<u>1,001,415</u>
<u>(1,418,491)</u>	<u>(75,362)</u>	<u>1,343,129</u>
80,000	80,000	0
<u>(80,000)</u>	<u>(80,000)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>
(1,418,491)	(75,362)	1,343,129
1,408,784	1,408,784	0
<u>10,207</u>	<u>10,207</u>	<u>0</u>
<u>\$500</u>	<u>\$1,343,629</u>	<u>\$1,343,129</u>

City of Cortland, Ohio
*Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2003*

	Enterprise
Operating Revenues	
Charges for Services	\$1,457,017
Tap-In Fees	71,755
Other	2,615
	1,531,387
<i>Total Operating Revenues</i>	
Operating Expenses	
Personal Services	302,932
Contractual Services	901,035
Materials and Supplies	60,639
Depreciation	261,888
	1,526,494
<i>Total Operating Expenses</i>	
<i>Net Income</i>	4,893
<i>Retained Earnings Beginning of Year - as Previously Reported</i>	1,282,199
<i>Prior Period Adjustment (See Note 3)</i>	(176,161)
<i>Prior Period Adjustment (See Note 3)</i>	7,879,761
	8,985,799
<i>Retained Earnings Beginning of Year - as Restated</i>	
<i>Retained Earnings End of Year</i>	8,990,692
<i>Contributed Capital Beginning of Year - as Previously Reported</i>	583,701
<i>Prior Period Adjustment (See Note 3)</i>	176,161
	759,862
<i>Contributed Capital Beginning and End of Year - as Restated</i>	
<i>Total Fund Equity End of Year</i>	\$9,750,554

See accompanying notes to the combined general purpose financial statements

City of Cortland, Ohio
*Combined Statement of Revenues, Expenses and
Changes in Fund Equity (Non-GAAP Basis) - Budget and Actual
Proprietary Fund Type
For the Year Ended December 31, 2003*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$1,413,000	\$1,380,807	(\$32,193)
Tap-In Fees	81,000	71,755	(9,245)
Other	4,000	2,615	(1,385)
<i>Total Revenues</i>	<u>1,498,000</u>	<u>1,455,177</u>	<u>(42,823)</u>
Expenses			
Personal Services	326,176	305,542	20,634
Contractual Services	1,590,896	901,035	689,861
Materials and Supplies	131,903	84,765	47,138
Capital Outlay	379,806	255,849	123,957
Debt Service:			
Principal Retirement	51,550	51,528	22
<i>Total Expenses</i>	<u>2,480,331</u>	<u>1,598,719</u>	<u>881,612</u>
<i>Excess of Expenses Over Revenues</i>	(982,331)	(143,542)	838,789
<i>Fund Equity Beginning of Year</i>	979,092	979,092	0
Prior Year Encumbrances Appropriated	<u>3,239</u>	<u>3,239</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u>\$0</u>	<u>\$838,789</u>	<u>\$838,789</u>

See accompanying notes to the combined general purpose financial statements

City of Cortland, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2003

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,380,807
Cash Received from Tap-In Fees	71,755
Cash Payments to Suppliers for Good and Services	(44,809)
Cash Payments for Contractual Services	(901,035)
Cash Payments for Employee Services and Benefits	(302,248)
Other Revenues	2,615
	207,085
<i>Net Cash Provided by Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Principal Payments - OPWC Loans	(51,528)
Acquisition of Capital Assets	(293,283)
	(344,811)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
	(137,726)
<i>Net Decrease in Cash and Cash Equivalents</i>	
	(137,726)
<i>Cash and Cash Equivalents Beginning of Year</i>	982,331
<i>Cash and Cash Equivalents End of Year</i>	\$844,605

(continued)

City of Cortland, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type (continued)
For the Year Ended December 31, 2003

	Enterprise
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$4,893
<i>Adjustments:</i>	
Depreciation	261,888
(Increase) in Accounts Receivable	(76,210)
Increase/(Decrease) in Liabilities:	
Accounts Payable	443
Accrued Wages	1,025
Compensated Absences Payable	(341)
Intergovernmental Payable	15,387
<i>Net Cash Provided by Operating Activities</i>	\$207,085

See accompanying notes to the combined general purpose financial statements

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

Note 1 - 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 the seven Council Members 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 the agencies and departments that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, water and wastewater treatment. 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 17 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.

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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 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 and proprietary. Each category in turn, is divided into separate "fund types." The City uses the following fund types and account groups:

Governmental Fund Types Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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. 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 expenditures for specified purposes.

Debt Service Fund The debt service fund is used to account for the accumulation of financial resources for, and the payment of general long-term obligation principal, interest and related costs.

Capital Projects Funds These funds are 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 Type Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

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:

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General Fixed Assets Account Group The general fixed assets account group is used to account for all general fixed assets of the City.

General Long-Term Obligations Account Group The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial 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 (i.e., revenues) and decreases (i.e., 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.

The modified accrual basis of accounting is followed for the governmental funds. The full accrual basis of accounting is followed for the proprietary fund.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the tax is levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: state-levied locally shared taxes, interest, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

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 the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the City Council.

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 in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were enacted by Council.

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

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fixes spending authority at the fund 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 Director of Finance is authorized to transfer appropriations between line items within an object of any department. During the year, several supplemental appropriation measures were passed. The amounts reported in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council during the year.

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 at the legal level of control. 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.

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.

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

During 2003, the City invested in STAROhio and non-negotiable certificates of deposit. The certificates of deposit are non-participating investment contracts and are reported at cost. 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, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$28,534, which includes \$10,984 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.

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

City of Cortland, Ohio
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expenses in the proprietary fund type when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Since the inventory balances at December 31, 2003 were not significant, no amounts were reported on the combined balance sheet.

F. Interfund Assets and Liabilities

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”.

G. Fixed Assets and Depreciation

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 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, including interest incurred during the construction of general fixed assets. 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.

Assets in the general fixed assets account group are not depreciated. Improvements to 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

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

City of Cortland, Ohio
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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 and contractually required pension contributions 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

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. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on the sick leave accumulated and employee's wage rates at December 31, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after ten years of service.

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. Contributed Capital

Contributed capital represents resources provided to the enterprise funds from other funds, other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on these assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

K. Fund Equity

Reservations of fund balance are established to identify the existence of assets that because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditures, including amounts legally segregated for specific use. Fund balances are reserved for encumbrances.

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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 – Restatement of Fund Balances and Fund Equity

Governmental Funds Fund Balances at the beginning of 2003 have been adjusted to correct an error. Throughout various years (1995-2001), the City determined that it had improperly recorded various grant expenditures as being paid from the general fund. This caused residual fund balances in the City's grant funds. These reporting errors did not affect the City's results of operations for the years ended December 31, 2002 and 2003.

Proprietary Funds Retained earnings and contributed capital at the beginning of 2003 have been adjusted to correct an error. During 2002, the City properly included developer contributions in non-operating revenues; however, the contributions totaling \$176,161 should have been closed to contributed capital instead of retained earnings. This reporting error did not affect the City's results of operations for the year ended December 31, 2002 and 2003 and had a net impact of zero on overall fund equity.

During the year it was also determined that capital assets acquired in various prior years were understated in the water and sewer enterprise funds by \$3,030,651 and \$4,849,119 respectively. This restatement changed retained earnings in the water fund from \$66,278 to \$3,096,929 and from \$1,039,760 to \$5,888,870 in the sewer fund for an overall increase in retained earnings of \$7,879,761. These reporting errors did not affect the City's results of operations for the years ended December 31, 2002 and 2003.

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 (Non-GAAP Basis) - Budget and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity (Non-GAAP Basis) – Budget and Actual – Proprietary Fund Type are presented on the budgetary basis to provide a meaningful 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 (generally accepted accounting principles) are:

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1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).
4. Unrecorded cash, which consists of unrecorded interest revenue, is not reported by the City on the budgetary statements, but is reported on the operating statements prepared using GAAP.

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
GAAP Basis	\$124,141	(\$109,862)	(\$10,752)
Net Adjustments for Revenue Accruals	13,330	(47,081)	0
Beginning Fair Value Adjustments for Investments	(3,399)	0	0
Ending Fair Value Adjustments for Investments	50	0	0
Advance In	40,000	40,000	0
Net Adjustments for Expenditure Accruals	(54,795)	73,833	(333)
Advance Out	(40,000)	(40,000)	0
Encumbrances	(19,103)	(41,391)	0
Budget Basis	\$60,224	(\$124,501)	(\$11,085)

Net Loss/Excess of Expenses Under Revenues
Proprietary Fund Type

	Enterprise
GAAP Basis	\$4,893
Net Adjustment for Revenue Accruals	(76,210)
Net Adjustment for Expenditure Accruals	10,957
Capital Outlay	(293,283)
Principal Retirement	(51,528)
Depreciation	261,888
Encumbrances	(259)
Budget Basis	(\$143,542)

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Note 5 – Compliance and Accountability

The City's State Grant fund had appropriations in excess of estimated resources, contrary to Section 5705.39, Ohio Revised Code. Management is analyzing the State Grant fund to determine how the deficit will be eliminated.

Note 6 - Deposits and Investments

State statutes classify monies held by the City into these 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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 can 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 not exceed thirty days;

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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 \$454,067 and the bank balance was \$564,383. Of the bank balance, \$113,000 was covered by federal depository insurance and \$451,383 was uncollateralized and uninsured. Although the securities were held by the pledging financial institution's trust department or agent in the financial institution's name and all State statutory requirements for the deposit of monies has been followed, noncompliance with federal requirements could 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. STAROhio's fair value at December 31, 2003 is \$1,800,050.

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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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,254,117	\$0
Investments of cash management pool:		
STAROhio	(1,800,050)	1,800,050
GASB Statement No. 3	\$454,067	\$1,800,050

Note 7 - Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) is for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the values as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 23 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2003, was \$20.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	\$99,600,200
Tangible Personal	6,150,842
Public Utility	2,152,670
Total	\$107,903,712

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Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single 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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Cortland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real, tangible personal property taxes and public utility taxes which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2003 operations. The receivable is offset by deferred revenue.

Note 8 - Receivables

Receivables at December 31, 2003, 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:	
Local Government	\$80,565
Homestead and Rollback	28,122
Estate Tax	22,820
Total General Fund	131,507
Special Revenue Funds:	
State Grant	51,622
SCMR	110,322
Police Levy	45,053
Fire Levy	38,343
Permissive Tax	88,859
State Highway	8,943
Total Special Revenue Funds	343,142
Bond Retirement Debt Service Fund	2,295
Total	\$476,944

City of Cortland, Ohio
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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, 2003.

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' fixed assets at December 31, 2003, follows:

Land	\$687
Equipment	243,315
Water and Sewer Lines	<u>13,741,036</u>
Total	<u>13,985,038</u>
Less: Accumulated Depreciation	<u>(4,676,457)</u>
Net Fixed Assets	<u><u>\$9,308,581</u></u>

A summary of changes in general fixed assets follows:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Land	\$6,476	\$0	\$0	\$6,476
Buildings	834,947	0	0	834,947
Equipment	605,715	69,611	0	675,326
Vehicles	<u>1,101,638</u>	<u>37,285</u>	<u>0</u>	<u>1,138,923</u>
Total	<u><u>\$2,548,776</u></u>	<u><u>\$106,896</u></u>	<u><u>\$0</u></u>	<u><u>\$2,655,672</u></u>

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

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%	\$172,749	2014
North High Street	0%	352,685	2018
South Mecca	0%	507,071	2015
General Long Term Obligations			
General Obligation Bond:			
Municipal Building Bonds	7.125%	800,000	2006

Changes in long-term obligations of the City during 2003 were as follows:

	Outstanding 1/1/2003	Additions	Reductions	Outstanding 12/31/2003
Enterprise Fund Obligations:				
Ohio Public Works Commission Loans				
1994 0% West Main Street	\$95,011	\$0	\$8,638	\$86,373
1998 0% North High Street	264,514	0	17,634	246,880
1995 0% South Mecca	315,697	0	25,256	290,441
<i>Total Enterprise Fund Obligations</i>	<u>675,222</u>	<u>0</u>	<u>51,528</u>	<u>623,694</u>
General Long-term Obligations:				
General Obligation Bonds				
1986 7.125% Municipal Building	160,000	0	40,000	120,000
Capital Leases	13,446	18,440	19,954	11,932
Compensated Absences	40,538	103,303	57,112	86,729
Intergovernmental Payable	46,801	59,629	46,801	59,629
<i>Total General Long-Term Obligations</i>	<u>260,785</u>	<u>181,372</u>	<u>163,867</u>	<u>278,290</u>
<i>Total All Types</i>	<u>\$936,007</u>	<u>\$181,372</u>	<u>\$215,395</u>	<u>\$901,984</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 police levy 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.

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

The City's overall legal debt margin was \$11,238,953 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, are as follows:

	Ohio Public Works Commission	General Obligation Bonds
2004	\$51,527	\$48,550
2005	51,527	45,700
2006	51,527	42,850
2007	51,527	0
2008	51,527	0
2009-2013	223,742	0
2014-2017	142,317	0
Total Principal and Interest	623,694	137,100
Less Interest	0	(17,100)
Total Principal	\$623,694	\$120,000

Note 12 - 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, can be paid a maximum of 480 hours of accumulated, unused sick leave. As of December 31, 2003, the liability for unpaid compensated absences was \$103,309 for the entire City.

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$53,534, \$46,037 and \$46,861 respectively; 74.99 percent has been contributed for 2003 and 100 percent for 2002 and 2001. The City did not have any contributions to the member-directed plan for 2003.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002 and 2001 were \$108,821, \$106,305 and \$99,663 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 72.00 percent has been contributed for 2003 with the remainder being reported as a liability.

Note 14 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$31,306. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F 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 rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$30,951 for police and \$29,523 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

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 2003, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Personal Service Insurance Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	1,000,000
	Commercial Property	3,000,000
	Data Processing	23,700
Scotsdale Indemnity	Commercial Crime	2,500
Cincinnati Insurance Company	Bonds - Employees and Officials	25,000
American Alternative Insurance Corporation	General Fire Liability/Rescue	2,000,000

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, 2003

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, 2003:

	Water Fund	Sewer Fund	Total
Operating Revenues	\$432,269	\$1,099,118	\$1,531,387
Depreciation	100,137	161,751	261,888
Operating Income (Loss)	113,326	(108,433)	4,893
Net Income (Loss)	113,326	(108,433)	4,893
Fixed Asset Additions	230,089	63,194	293,283
Net Working Capital	203,994	871,412	1,075,406
Total Assets	3,814,498	6,655,991	10,470,489
Total Equity	3,547,046	6,203,508	9,750,554
Encumbrances	259	0	259

Note 17 - 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 fostering cooperative regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representatives from Trumbull County and Mahoning County, township trustees and officials from participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each participant. Funding comes from each of the participants. For 2003, the City made no contributions 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 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 2003, the City contributed \$1,434 to the Emergency Management Agency.

City of Cortland, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

Note 18 – Capital Leases

The City has entered into a lease agreement for a vehicle. The 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 the amount of \$18,440, which is 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.

Year	General Long-Term Obligation
2004	\$6,508
2005	6,508
Total	13,016
Less: Amount representing interest	(1,084)
Present value of minimum lease payments	\$11,932

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

City of Cortland
Trumbull County
400 North High Street
Cortland, Ohio 44410

We have audited the financial statements of the City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 2003 and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 test 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 September 2, 2005.

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.

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



Youngstown, Ohio
September 2, 2005



**Auditor of State
Betty Montgomery**

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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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2006**