

CITY OF CORTLAND, OHIO

FINANCIAL STATEMENTS

For the Year Ended December 31, 2004



**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, 2004 through December 31, 2004. 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.

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BETTY MONTGOMERY
Auditor of State

April 7, 2006

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City of Cortland, Ohio
Basic Financial Statements
For the Year Ended December 31, 2004
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REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Cortland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general, fire levy, police levy and street construction, maintenance and repair levy for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The City also implemented Government Accounting Standards Statements No. 37, 38, 39, 41, and 46, GASB Technical Bulletin No. 2004-2 and GASB Interpretation No. 6.

In accordance with Government Auditing Standards, we have issued our report dated September 2, 2005 on our consideration of City of Cortland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Parker Thomas". The signature is written in a cursive style with a horizontal line extending from the end.

Youngstown, Ohio
September 2, 2005

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The discussion and analysis of the City of Cortland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- This is the City of Cortland's first publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City of Cortland exceeded liabilities by \$12,567,824 at December 31, 2004.
- Total net assets decreased by \$69,074. Governmental activities accounted for a \$131,523 increase, while business-type activities accounted for a \$200,597 decrease.
- Total capital assets increased \$397,622, or 3.8 percent from 2003. Governmental capital assets increased \$676,831 while business-type capital assets decreased \$279,209.
- The City had \$80,000 in general obligation bonds outstanding at December 31, 2004 as compared to \$120,000 at December 31, 2003. The City also had business-type OPWC loans outstanding at December 31, 2004 in the amount of \$572,166, as compared to \$623,694 at December 31, 2003.
- Total liabilities decreased \$64,859. Governmental activities liabilities increased \$1,270 and business-type activities liabilities decreased \$66,129.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Cortland's basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The statement of Net Assets and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Cortland as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The government-wide financial statements are designed to provide readers with a broad overview of the City of Cortland's finances, in a manner similar to private sector businesses.

The *statement of net assets* presents information on all of the City of Cortland's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Cortland is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Cortland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Cortland include general government, security of persons and property, leisure time activities, community environment, transportation and basic utility services. General government activities include those of the City council, the mayor's office, the finance department, the law director and the service director as well as other administrative services. Security of persons and property activities include those of the police and fire department. The leisure time activities include the upkeep and maintenance of the City's park while community environment includes the planning and zoning and public lands and buildings departments. Transportation includes all street construction, maintenance and repair activities and basic utility services include the maintenance and upkeep of all storm sewers located within the City. The business-type activities include water and sewer.

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cortland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Cortland can be divided into two categories: governmental funds and proprietary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

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

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The City of Cortland maintains thirteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General fund, and the Police Levy, Fire Levy and Street Construction, Maintenance and Repair special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

The City of Cortland adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

Proprietary Funds The City of Cortland's proprietary funds consist of water and sewer. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations as they are considered major funds.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$3,278,877	\$3,822,915	\$1,174,391	\$1,161,908	\$4,453,268	\$4,984,823
Capital Assets, Net	1,929,703	1,252,872	9,029,372	9,308,581	10,959,075	10,561,453
Total Assets	5,208,580	5,075,787	10,203,763	10,470,489	15,412,343	15,546,276
Liabilities						
Current Liabilities	2,035,650	2,005,942	59,706	85,574	2,095,356	2,091,516
Long-Term Liabilities						
Due Within One Year	49,824	81,234	52,030	57,096	101,854	138,330
Due in More Than One Year	105,239	102,267	542,070	577,265	647,309	679,532
Total Liabilities	2,190,713	2,189,443	653,806	719,935	2,844,519	2,909,378
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,849,703	1,252,872	8,457,206	8,684,887	10,306,909	9,937,759
Restricted for:						
Capital Projects	0	0	0	0	0	0
Debt Service	24,423	32,478	0	0	24,423	32,478
Streets	423,060	313,706	0	0	423,060	313,706
Other Purposes	426,707	377,441	0	0	426,707	377,441
Unrestricted	293,974	909,847	1,092,751	1,065,667	1,386,725	1,975,514
Total Net Assets	\$3,017,867	\$2,886,344	\$9,549,957	\$9,750,554	\$12,567,824	\$12,636,898

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

For the City of Cortland, total assets exceeded total liabilities by \$12,567,824 at the close of 2004. Of the total net assets, capital assets, net of related debt make up \$10,306,909 or 82.0 percent.

Total assets of the City decreased \$133,933 from 2003 due mainly to another year of depreciation being taken on the City's capital assets. The decrease in City-wide liabilities of \$64,859 was due mainly to the City paying down another year on its outstanding debt.

Governmental net assets increased \$131,523 during 2004, and business-type net assets decreased \$200,597. The City of Cortland was able to report positive balances for combined net assets as well as for the separate governmental and business-type activities.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the year. However, since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$265,827	\$1,394,310	\$1,660,137
Operating Grants	770,367	0	770,367
Capital Grants	127,238	0	127,238
Total Program Revenues	<u>1,163,432</u>	<u>1,394,310</u>	<u>2,557,742</u>
General Revenues			
Property Taxes	1,841,596	0	1,841,596
Grants and Entitlements	410,806	0	410,806
Investment Earnings	25,157	0	25,157
Other	9,458	3,288	12,746
Total General Revenues	<u>2,287,017</u>	<u>3,288</u>	<u>2,290,305</u>
<i>Total Revenues</i>	<u>\$3,450,449</u>	<u>\$1,397,598</u>	<u>\$4,848,047</u>

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Table 2
Change in Net Assets

	Governmental Activities	Business-Type Activities	Total
Program Expenses			
General Government	\$1,182,856	\$0	\$1,182,856
Security of Persons and Property	1,692,720	0	1,692,720
Leisure Time Activities	29,329	0	29,329
Community Environment	38,632	0	38,632
Transportation	360,579	0	360,579
Basic Utility Services	5,941	0	5,941
Interest and Fiscal Charges	8,869	0	8,869
Water	0	530,260	530,260
Sewer	0	1,067,935	1,067,935
Total Program Expenses	<u>3,318,926</u>	<u>1,598,195</u>	<u>4,917,121</u>
Increase (Decrease) in Net Assets	131,523	(200,597)	(69,074)
Net Assets Beginning of Year	<u>2,886,344</u>	<u>9,750,554</u>	<u>12,636,898</u>
Net Assets End of Year	<u><u>\$3,017,867</u></u>	<u><u>\$9,549,957</u></u>	<u><u>\$12,567,824</u></u>

Governmental Activities

Several sources fund our governmental activities with the City property tax being the largest component, contributing \$1,841,596, or 53.4 percent of the \$3,450,449 total governmental revenue. Program revenues are the next most important source of revenue generating \$1,163,432 or 33.7 percent. All other revenues including grants and entitlements, interest and other revenue accounted for \$445,421 or 12.9 percent of total governmental revenue.

Major expense activities are the operating costs associated with security of persons and property. Police and fire account for \$1,692,720 or 51.0 percent of the total governmental expenditures. The City of Cortland continued to provide a wide range of community services and programs in 2004. Transportation at 10.9 percent is a significant component of total expenses. For the past decade the City's continued commitment to maintaining and improving streets, roadways and bridges has become a key component in our economic development efforts.

Business-Type Activities

Business-type activities include the City's water and sewer operations. Net assets for 2004 decreased \$200,597 due mainly to capital assets decreasing \$279,209 as a result of another year of depreciation being taken on the assets.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

At the end of 2004 the City of Cortland reported combined governmental fund balances of \$754,120. Of this amount, \$747,534 constitutes unreserved balances, which is available for spending. The remaining \$6,586 is reserved to indicate that is not available for spending due to contractual commitments and purchases of the prior period.

Combined governmental funds had total revenues of \$3,358,309 and expenditures of \$4,024,592 leaving a difference of expenditures over revenues of \$666,283. The City made budgetary adjustments and expenditure reductions within the General Fund during the year as a first step in bringing spending in line with revenues.

The general fund is the primary operating fund of the City and at the end of 2004, had a balance of \$207,187, a decrease of \$714,452 from 2003. This decrease was due mainly to a decrease of nearly \$285,000 in revenues and an increase of nearly \$560,000 in expenditures. Licenses, permits and fees revenue decreased in 2004 as a result of building and construction permits decreasing and intergovernmental revenue decreased as a result of less grant monies being received in 2004. General government expenditures increased during 2004 as a result of salary increases and consulting fees being paid for infrastructure projects.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2004, the City amended its general fund budget on various occasions. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City of Cortland operates with a legal level of control at the fund level. The control level of the general fund, however is by department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund supports many major activities that include parks and storm sewers, in addition to being the funding source for legislative and administrative activities. The general fund is monitored closely with regard to revenues and related expenditures.

The original 2004 general fund revenues were budgeted at \$758,561, final budgeted revenues were \$812,561 and actual revenues amounted to \$823,255. Original appropriations in the general fund were budgeted at \$1,461,699, final appropriations were \$1,515,699 and actual expenditures amounted to \$1,326,376. The significant differences between the general fund's original and final amended budget are due to increases in inheritance taxes and interest income.

The City had nearly \$700,000 in cash accumulated in its general fund prior to 2004. During 2004 the City's budgeted revenues were nearly half of budgeted expenditures based upon the accumulation of this money. The beginning cash balance plus 2004 estimated resources was in line with budgeted expenditures. Actual revenues plus the beginning cash balance was sufficient to cover actual expenditures, which included the cost of three major infrastructure projects that were completed in 2004. The general fund balance at December 31, 2004 was \$200,017. In 2005, the budget for City expenditures will be based upon estimated resources for the current year only, instead of estimated resources plus a large carryover cash balance.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2004 balances of capital assets as compared to 2003.

(Table 3)
 Capital Assets at December 31
 (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$6,476	\$6,476	\$687	\$687	\$7,163	\$7,163
Buildings and Improvements	508,254	527,751	0	0	508,254	527,751
Furniture, Fixtures and Equipment	302,532	206,538	54,934	63,904	357,466	270,442
Vehicles	482,981	512,107	30,474	39,270	513,455	551,377
Infrastructure	629,460	0	8,943,277	9,204,720	9,572,737	9,204,720
Total Capital Assets	\$1,929,703	\$1,252,872	\$9,029,372	\$9,308,581	\$10,959,075	\$10,561,453

Total capital assets of the City of Cortland were \$10,959,075, an increase of \$397,622 from 2003. Capital assets for governmental activities increased \$676,831 due to the City reporting general infrastructure with its capital assets for the first time in 2004. The City's governmental activities infrastructure consists of roads, storm sewers, sidewalks and curbs. Capital assets for business-type activities were \$9,029,372, a decrease of \$279,209 from 2003. This decrease is attributed to another year of depreciation being taken on the assets. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

Debt

At December 31, 2004, the City of Cortland had governmental long-term obligations of \$155,063 in bonds, capital leases and compensated absences outstanding. At December 31, 2004 the City had \$594,100 outstanding in long-term business-type obligations which include OPWC loans and compensated absences. Table 4 summarizes the City's long-term obligations outstanding.

(Table 4)
 Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bond	\$80,000	\$120,000	\$0	\$0	\$80,000	\$120,000
OPWC Loans	0	0	572,166	623,694	572,166	623,694
Capital Leases	6,140	11,932	0	0	6,140	11,932
Compensated Absences	68,923	51,569	21,934	10,667	90,857	62,236
Total	\$155,063	\$183,501	\$594,100	\$634,361	\$749,163	\$817,862

The general obligation bond outstanding is a 1986 Municipal Building bond.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Business-type debt includes OPWC loans outstanding for infrastructure improvement projects, which are repaid using water and sewer revenues.

Additional information concerning debt issuances can be found in Note 10 to the basic financial statements.

Current Financial Related Activities

The City of Cortland is now experiencing a reduction in the General Fund carryover balance, due to the completion of three major projects in 2004. These projects consisted of necessary infrastructure replacement which included new streets, storm sewers, sidewalks and curbs. As a result, the City does not anticipate major construction and expenditures in the upcoming budget. This should give the General Fund a chance to rebuild for future major projects, while continuing to fund the administrative costs and activities such as parks and storm sewers. Since the City of Cortland does not have an income tax, but relies upon tax levies for the majority of their funding, the flow of revenue has remained fairly constant. These revenues will continue to be closely monitored and reviewed to insure continued financial stability as we go forward.

The two proprietary funds have shown significant differences in the past few years. The water fund has remained self-sufficient, but needs to begin building capital for major improvements over the next five to ten years. The sewer fund has been utilized to study areas of inflow and infiltration, and projects have been completed to replace the most necessary areas throughout the City. This program will continue, with money made available through a rate increase. The balances of both funds are being monitored with the thought that an increase in water rates will be necessary, but could possibly be offset by a decrease in the sewer rate.

Contacting the City's Finance Department

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Fran Moyer, Finance Director, City of Cortland, 400 N. High St. Cortland, Ohio 44410. Phone: (330) 637-4263, Fax: (330) 637-4778 or email financedirector@cityofcortland.org.

Basic Financial Statements

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City of Cortland, Ohio

Statement of Net Assets

December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$752,187	\$855,715	\$1,607,902
Accrued Interest Receivable	42	0	42
Accounts Receivable	44,189	318,676	362,865
Intergovernmental Receivable	497,725	0	497,725
Property Taxes Receivable	1,984,734	0	1,984,734
Nondepreciable Capital Assets	6,476	687	7,163
Depreciable Capital Assets, Net	1,923,227	9,028,685	10,951,912
<i>Total Assets</i>	<u>5,208,580</u>	<u>10,203,763</u>	<u>15,412,343</u>
Liabilities			
Accounts Payable	8,727	10,447	19,174
Accrued Wages	7,228	1,629	8,857
Contracts Payable	17,523	0	17,523
Intergovernmental Payable	70,927	47,630	118,557
Accrued Interest Payable	644	0	644
Deferred Revenue	1,930,601	0	1,930,601
Long-Term Liabilities:			
Due Within One Year	49,824	52,030	101,854
Due In More Than One Year	105,239	542,070	647,309
<i>Total Liabilities</i>	<u>2,190,713</u>	<u>653,806</u>	<u>2,844,519</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,849,703	8,457,206	10,306,909
Restricted for:			
Debt Service	24,423	0	24,423
Streets	423,060	0	423,060
Other Purposes	426,707	0	426,707
Unrestricted	293,974	1,092,751	1,386,725
<i>Total Net Assets</i>	<u>\$3,017,867</u>	<u>\$9,549,957</u>	<u>\$12,567,824</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$1,182,856	\$16,215	\$0	\$0
Security of Persons and Property	1,692,720	249,139	334,967	0
Leisure Time Activities	29,329	0	0	0
Community Environment	38,632	0	0	0
Transportation	360,579	473	435,400	63,619
Basic Utility Services	5,941	0	0	63,619
Interest and Fiscal Charges	8,869	0	0	0
<i>Total Governmental Activities</i>	<u>3,318,926</u>	<u>265,827</u>	<u>770,367</u>	<u>127,238</u>
Business-Type Activities:				
Water	530,260	396,671	0	0
Sewer	1,067,935	997,639	0	0
<i>Total Business-Type Activities</i>	<u>1,598,195</u>	<u>1,394,310</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$4,917,121</u>	<u>\$1,660,137</u>	<u>\$770,367</u>	<u>\$127,238</u>

General Revenues

Property and Other Taxes Levied for:

 General Purposes

 Debt Service

 Fire Levy

 Police Pension

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,166,641)	\$0	(\$1,166,641)
(1,108,614)	0	(1,108,614)
(29,329)	0	(29,329)
(38,632)	0	(38,632)
138,913	0	138,913
57,678	0	57,678
(8,869)	0	(8,869)
(2,155,494)	0	(2,155,494)
0	(133,589)	(133,589)
0	(70,296)	(70,296)
0	(203,885)	(203,885)
(2,155,494)	(203,885)	(2,359,379)
446,840	0	446,840
37,645	0	37,645
607,883	0	607,883
749,228	0	749,228
410,806	0	410,806
25,157	0	25,157
9,458	3,288	12,746
2,287,017	3,288	2,290,305
131,523	(200,597)	(69,074)
2,886,344	9,750,554	12,636,898
<u>\$3,017,867</u>	<u>\$9,549,957</u>	<u>\$12,567,824</u>

City of Cortland, Ohio*Balance Sheet**Governmental Funds**December 31, 2004*

	<u>General</u>	<u>Police Levy</u>	<u>Fire Levy</u>	<u>Street Construction, Maintenance and Repair</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$206,735	\$207,011	\$146,267	\$96,607
Receivables:				
Taxes	495,294	800,386	648,750	0
Accounts	212	0	43,614	0
Interfund	12,476	0	0	0
Accrued Interest	42	0	0	0
Intergovernmental Receivable	111,846	42,605	34,579	260,305
<i>Total Assets</i>	<u>\$826,605</u>	<u>\$1,050,002</u>	<u>\$873,210</u>	<u>\$356,912</u>
Liabilities				
Accounts Payable	\$1,551	\$1,897	\$2,148	\$3,131
Contracts Payable	17,523	0	0	0
Accrued Wages	1,199	2,675	2,826	438
Interfund Payable	0	0	0	0
Intergovernmental Payable	9,648	26,834	29,265	5,107
Deferred Revenue	589,497	842,991	683,329	233,291
<i>Total Liabilities</i>	<u>619,418</u>	<u>874,397</u>	<u>717,568</u>	<u>241,967</u>
Fund Balances				
Reserved for Encumbrances	6,586	0	0	0
Unreserved:				
Undesignated, Reported in:				
General Fund	200,601	0	0	0
Special Revenue Funds	0	175,605	155,642	114,945
Debt Service Fund	0	0	0	0
<i>Total Fund Balances</i>	<u>207,187</u>	<u>175,605</u>	<u>155,642</u>	<u>114,945</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$826,605</u>	<u>\$1,050,002</u>	<u>\$873,210</u>	<u>\$356,912</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$754,120
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$95,567	\$752,187	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,929,703
40,304	1,984,734		
363	44,189		
0	12,476	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
0	42	Property and Other Taxes	287,424
48,390	497,725	Intergovernmental	202,327
<u>\$184,624</u>	<u>\$3,291,353</u>	Total	489,751
\$0	\$8,727	In the statement of activities, interest is accrued on outstanding bonds and leases whereas in governmental funds, an interest expenditure is reported when due.	(644)
0	17,523		
90	7,228		
12,476	12,476	Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
73	70,927	General Obligation Bond	(80,000)
71,244	2,420,352	Compensated Absences	(68,923)
<u>83,883</u>	<u>2,537,233</u>	Capital Leases	(6,140)
		Total	<u>(155,063)</u>
		<i>Net Assets of Governmental Activities</i>	<u><u>\$3,017,867</u></u>
0	6,586		
0	200,601		
79,102	525,294		
21,639	21,639		
<u>100,741</u>	<u>754,120</u>		
<u>\$184,624</u>	<u>\$3,291,353</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
Revenues				
Property and Other Taxes	\$446,636	\$749,631	\$608,209	\$0
Charges for Services	12,712	0	173,425	0
Licenses and Permits	69,225	0	0	0
Fines and Forfeitures	5,878	0	0	0
Intergovernmental	253,948	94,367	74,550	268,231
Interest	25,157	0	0	0
Contributions and Donations	0	0	170	0
Other	0	1,180	8,278	0
<i>Total Revenues</i>	<u>813,556</u>	<u>845,178</u>	<u>864,632</u>	<u>268,231</u>
Expenditures				
Current:				
General Government	1,341,295	0	0	0
Security of Persons and Property	2,979	778,330	892,046	0
Leisure Time Activities	37,041	0	0	0
Community Environment	43,725	0	0	0
Transportation	0	0	0	244,795
Basic Utility Services	102,968	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	5,792	0	0
Interest and Fiscal Charges	0	716	0	0
<i>Total Expenditures</i>	<u>1,528,008</u>	<u>784,838</u>	<u>892,046</u>	<u>244,795</u>
<i>Net Change in Fund Balance</i>	(714,452)	60,340	(27,414)	23,436
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>921,639</u>	<u>115,265</u>	<u>183,056</u>	<u>91,509</u>
<i>Fund Balances End of Year</i>	<u>\$207,187</u>	<u>\$175,605</u>	<u>\$155,642</u>	<u>\$114,945</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$666,283)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$37,666	\$1,842,142	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
3,503	189,640	Capital Outlay	842,787
0	69,225	Depreciation	<u>(165,956)</u>
1,084	6,962		
524,459	1,215,555	Total	676,831
0	25,157		
0	170		
0	9,458		
<u>566,712</u>	<u>3,358,309</u>	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
		Property and Other Taxes	(546)
1,217	1,342,512	Intergovernmental	<u>92,686</u>
310,829	1,984,184		
0	37,041	Total	92,140
0	43,725		
87,071	331,866	Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	45,792
0	102,968		
127,238	127,238		
40,000	45,792	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	397
8,550	9,266		
<u>574,905</u>	<u>4,024,592</u>	Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(17,354)</u>
(8,193)	(666,283)		
108,934	1,420,403	<i>Change in Net Assets of Governmental Activities</i>	<u>\$131,523</u>
<u>\$100,741</u>	<u>\$754,120</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance (Non-GAAP Basis) - Budget and Actual
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$412,130	\$440,000	\$446,636	\$6,636
Charges for Services	11,240	12,000	13,079	1,079
Licenses and Permits	57,103	63,669	69,225	5,556
Fines and Forfeitures	9,369	10,002	5,666	(4,336)
Intergovernmental	245,302	261,890	263,579	1,689
Interest	23,417	25,000	25,070	70
<i>Total Revenues</i>	758,561	812,561	823,255	10,694
Expenditures				
Current:				
General Government	1,195,253	1,238,677	1,120,489	118,188
Security of Persons and Property	21,227	22,000	15,455	6,545
Public Health Services	7,719	8,000	0	8,000
Leisure Time Activities	88,727	91,392	42,192	49,200
Community Environment	46,747	48,430	45,272	3,158
Basic Utility Services	102,026	107,200	102,968	4,232
<i>Total Expenditures</i>	1,461,699	1,515,699	1,326,376	189,323
<i>Excess of Revenue Under Expenditures</i>	(703,138)	(703,138)	(503,121)	200,017
Other Financing Sources (Uses)				
Advances In	40,000	40,000	40,000	0
Advances Out	(40,000)	(40,000)	(40,000)	0
<i>Total Other Financing Sources (Uses)</i>	0	0	0	0
<i>Net Change in Fund Balance</i>	(703,138)	(703,138)	(503,121)	200,017
<i>Fund Balance Beginning of Year</i>	684,035	684,035	684,035	0
Prior Year Encumbrances Appropriated	19,103	19,103	19,103	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$200,017	\$200,017

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance (Non-GAAP Basis) - Budget and Actual
Police Levy Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$707,172	\$748,500	\$749,631	\$1,131
Intergovernmental	91,594	91,757	94,367	2,610
Other	4,992	5,001	1,180	(3,821)
<i>Total Revenues</i>	803,758	845,258	845,178	(80)
Expenditures				
Current:				
Security of Persons and Property	969,940	1,011,440	804,349	207,091
<i>Excess of Revenues Over (Under) Expenditures</i>	(166,182)	(166,182)	40,829	207,011
Other Financing Sources (Uses)				
Advances In	40,000	40,000	40,000	0
Advances Out	(40,000)	(40,000)	(40,000)	0
<i>Total Other Financing Sources (Uses)</i>	0	0	0	0
<i>Net Change in Fund Balance</i>	(166,182)	(166,182)	40,829	207,011
<i>Fund Balance Beginning of Year</i>	165,942	165,942	165,942	0
Prior Year Encumbrances Appropriated	240	240	240	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$207,011	\$207,011

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance (Non-GAAP Basis) - Budget and Actual
Fire Levy Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$525,455	\$602,500	\$608,209	\$5,709
Charges for Services	150,000	172,000	180,646	8,646
Intergovernmental	67,731	77,663	76,440	(1,223)
Contributions and Donations	0	0	170	170
Other	6,977	8,000	8,278	278
<i>Total Revenues</i>	750,163	860,163	873,743	13,580
Expenditures				
Current:				
Security of Persons and Property	930,037	1,040,037	907,350	132,687
<i>Net Change in Fund Balance</i>	(179,874)	(179,874)	(33,607)	146,267
<i>Fund Balance Beginning of Year</i>	179,190	179,190	179,190	0
Prior Year Encumbrances Appropriated	684	684	684	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$146,267</u>	<u>\$146,267</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
*Statement of Revenues, Expenditures and Changes
 In Fund Balance (Non-GAAP Basis) - Budget and Actual
 Street Construction, Maintenance and Repair Fund
 For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$185,002	\$235,002	\$252,641	\$17,639
Expenditures				
Current:				
Transportation	272,492	322,492	245,204	77,288
<i>Net Change in Fund Balance</i>	(87,490)	(87,490)	7,437	94,927
<i>Fund Balance Beginning of Year</i>	66,470	66,470	66,470	0
Prior Year Encumbrances Appropriated	21,020	21,020	21,020	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$94,927	\$94,927

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2004

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$107,235	\$748,480	\$855,715
Accounts Receivable	81,022	237,654	318,676
<i>Total Current Assets</i>	<u>188,257</u>	<u>986,134</u>	<u>1,174,391</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	0	687	687
Depreciable Capital Assets, Net	3,488,091	5,540,594	9,028,685
<i>Total Noncurrent Assets</i>	<u>3,488,091</u>	<u>5,541,281</u>	<u>9,029,372</u>
<i>Total Assets</i>	<u>3,676,348</u>	<u>6,527,415</u>	<u>10,203,763</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	9,245	1,202	10,447
Accrued Wages	892	737	1,629
Intergovernmental Payable	7,393	40,237	47,630
Compensated Absences Payable	243	259	502
OPWC Loans Payable	17,634	33,894	51,528
<i>Total Current Liabilities</i>	<u>35,407</u>	<u>76,329</u>	<u>111,736</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	12,644	8,788	21,432
OPWC Loans Payable	211,612	309,026	520,638
<i>Total Long-Term Liabilities</i>	<u>224,256</u>	<u>317,814</u>	<u>542,070</u>
<i>Total Liabilities</i>	<u>259,663</u>	<u>394,143</u>	<u>653,806</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,258,845	5,198,361	8,457,206
Unrestricted	157,840	934,911	1,092,751
<i>Total Net Assets</i>	<u>\$3,416,685</u>	<u>\$6,133,272</u>	<u>\$9,549,957</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2004*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$365,557	\$982,769	\$1,348,326
Tap-In Fees	31,114	14,870	45,984
Other	<u>3,228</u>	<u>60</u>	<u>3,288</u>
<i>Total Operating Revenues</i>	<u>399,899</u>	<u>997,699</u>	<u>1,397,598</u>
Operating Expenses			
Personal Services	247,002	199,048	446,050
Materials and Supplies	102,442	20,768	123,210
Contractual Services	73,570	676,156	749,726
Depreciation	<u>107,246</u>	<u>171,963</u>	<u>279,209</u>
<i>Total Operating Expenses</i>	<u>530,260</u>	<u>1,067,935</u>	<u>1,598,195</u>
<i>Change in Net Assets</i>	(130,361)	(70,236)	(200,597)
<i>Net Assets Beginning of Year</i>	<u>3,547,046</u>	<u>6,203,508</u>	<u>9,750,554</u>
<i>Net Assets End of Year</i>	<u><u>\$3,416,685</u></u>	<u><u>\$6,133,272</u></u>	<u><u>\$9,549,957</u></u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2004

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$364,513	\$982,440	\$1,346,953
Tap In Fees	31,114	14,870	45,984
Other Operating Revenues	3,228	60	3,288
Cash Payments to Suppliers for Materials and Supplies	(94,928)	(45,737)	(140,665)
Cash Payments for Employee Services and Benefits	(244,671)	(198,525)	(443,196)
Cash Payments for Contractual Services	(73,570)	(676,156)	(749,726)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(14,314)	76,952	62,638
Cash Flows from Capital and Related Financing Activities			
Principal Paid on OPWC Loans	(17,634)	(33,894)	(51,528)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(31,948)	43,058	11,110
<i>Cash and Cash Equivalents Beginning of Year</i>	139,183	705,422	844,605
<i>Cash and Cash Equivalents End of Year</i>	\$107,235	\$748,480	\$855,715
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating Loss	(\$130,361)	(\$70,236)	(\$200,597)
Adjustments:			
Depreciation	107,246	171,963	279,209
(Increase) Decrease in Assets:			
Accounts Receivable	(1,044)	(329)	(1,373)
Increase (Decrease) in Liabilities:			
Accounts Payable	8,144	18	8,162
Accrued Wages	(4,784)	(3,629)	(8,413)
Compensated Absences Payable	7,115	4,152	11,267
Intergovernmental Payable	(630)	(24,987)	(25,617)
<i>Total Adjustments</i>	116,047	147,188	263,235
<i>Net Cash Provided by (Used for) Operating Activities</i>	(\$14,314)	\$76,952	\$62,638

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Cortland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

B. Fund Accounting

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

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

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Police Levy Fund The police levy special revenue fund is used to account for property tax revenues received from a police levy. Monies are used to maintain the police equipment and for salaries of the policemen.

Fire Levy Fund The fire levy special revenue fund is used to account for property tax revenues received from a fire levy. Monies are used to maintain fire equipment and for salaries of firemen.

Street Construction, Maintenance and Repair Fund The street construction, maintenance and repair fund accounts for ninety two percent and one half (92.5%) of the State gasoline tax and motor vehicle registration fees designated for street maintenance and repair.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds..

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Sewer Fund The sewer fund accounts for the provisions of sanitary sewer services to the residents and commercial users located within the City.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

City of Cortland, Ohio
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For the Year Ended December 31, 2004

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes and grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: interest, federal and state grants and subsidies, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

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, 2004, but which were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of Cortland, Ohio
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For the Year Ended December 31, 2004

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.

E. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2004, the City's investments were limited to non-negotiable certificates of deposit, which are reported at cost, and STAROhio. 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, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$25,157, which includes \$3,235 assigned from other City funds.

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 presented on the financial statements as cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Since inventory balances were not significant at year-end, no amounts have been reported in the accompanying financial statements.

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

City of Cortland, Ohio
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For the Year Ended December 31, 2004

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars for governmental activities and for business type activities. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business Type Activities Estimated Lives
Buildings and Improvements	20 - 50 years	n/a
Furniture, Fixtures and Equipment	5 - 10 years	5 - 10 years
Vehicles	5 - 20 years	5 - 10 years
Infrastructure:		
Roads	10 years	n/a
Storm Sewers	50 years	n/a
Sidewalks	40 years	n/a
Curbs	50 years	n/a
Water and Sewer Lines	n/a	50 years

During 2004, the City reported general infrastructure assets for the first time which consists of roads, storm sewers, sidewalks and curbs. Only general infrastructure assets acquired or improved during 2004 have been reported, consistent with the requirements of GASB Statement No. 34.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all 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 includes the employees who are currently eligible to receive termination payments and those the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments within the next five years). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. Interfund Activity

On fund financial statements receivables and payables resulting from interfund activity are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$874,190 of restricted net assets, of which \$426,707 is restricted by enabling legislation.

Net assets restricted for other purposes include recreational activities and law enforcement education.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither extraordinary or special items occurred in 2004.

City of Cortland, Ohio
Notes to the Basic Financial Statements
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P. Estimates

The preparation of the 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.

Q. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds other than the general fund. The control level of the general fund is by department within the fund. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within departments has been given to the Director of Finance.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 - Change in Accounting Principles and Restatement of Prior Year Fund Equity

A. Changes in Accounting Principles

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", "GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, Budgetary Comparisons Schedules - Perspective Differences", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements prepared on a modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatements explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

The implementation of Statement No. 39, Statement No. 41 and Statement No. 46 did not affect the presentation of the financial statements.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Net Assets/Fund Balance

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	General	Police Levy	Fire Levy
Fund Balances, December 31, 2003	\$927,820	\$135,938	\$205,989
GASB Technical Bulletin No. 2004-2	(6,694)	(23,768)	(24,939)
GASB Interpretation No. 6	513	3,095	2,006
Adjusted Fund Balances, December 31, 2003	<u>\$921,639</u>	<u>\$115,265</u>	<u>\$183,056</u>
			(continued)
	Street Construction, Maintenance and Repair	Nonmajor	Total
Fund Balances, December 31, 2003	\$95,444	\$108,934	\$1,474,125
GASB Technical Bulletin No. 2004-2	(4,228)	0	(59,629)
GASB Interpretation No. 6	293	0	5,907
Adjusted Fund Balances, December 31, 2003	<u>\$91,509</u>	<u>\$108,934</u>	1,420,403
GASB 34 Adjustments:			
Capital Assets			1,252,872
Accrued Interest			(1,041)
Long-Term Liabilities:			
Compensated Absences			(51,569)
General Obligation Bonds			(120,000)
Capital Leases			(11,932)
Long-Term (Deferred) Assets			<u>397,611</u>
Governmental Activities Net Assets, December 31, 2003			<u>\$2,886,344</u>

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances (Non-GAAP Basis) - Budget and Actual are presented in the basic financial statements for the General Fund and Major Special Revenue funds. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

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).

City of Cortland, Ohio
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For the Year Ended December 31, 2004

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but is reported on GAAP basis operating statements.
5. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds:

	Net Change in Fund Balance			
	General	Police Levy	Fire Levy	Street Construction, Maintenance Repair
GAAP Basis	(\$714,452)	\$60,340	(\$27,414)	\$23,436
Net Adjustments for				
Revenue Accruals	9,617	0	9,111	(15,590)
Beginning Unrecorded Cash	(50)	0	0	0
Ending Unrecorded Cash	132	0	0	0
Advances In	40,000	40,000	0	0
Net Adjustments for				
Expenditure Accruals	208,218	(19,511)	(15,304)	1,271
Advances Out	(40,000)	(40,000)	0	0
Encumbrances	(6,586)	0	0	(1,680)
Budget Basis	<u>(\$503,121)</u>	<u>\$40,829</u>	<u>(\$33,607)</u>	<u>\$7,437</u>

Note 5 - 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

City of Cortland, Ohio
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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;
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.

City of Cortland, Ohio
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For the Year Ended December 31, 2004

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 \$807,770 and the bank balance was \$1,121,288. Of the bank balance, \$113,000 was covered by federal depository insurance and \$1,008,288 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, 2004 is \$800,132.

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	\$1,607,902	\$0
Investments of cash management pool:		
STAROhio	(800,132)	800,132
GASB Statement No. 3	\$807,770	\$800,132

City of Cortland, Ohio
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Note 6 - 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 2004 for real and public property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

The full tax rate for all City operations for the year ended December 31, 2004, was \$20.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$101,545,980
Tangible Personal	6,226,160
Public Utility	<u>2,515,350</u>
Total	<u><u>\$110,287,490</u></u>

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.

City of Cortland, Ohio
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For the Year Ended December 31, 2004

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, 2004 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund and the police levy and fire levy special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while the remainder of the receivable is deferred.

Note 7 - Receivables

Receivables at December 31, 2004, 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:

	<u>Amount</u>
Gasoline Tax	\$208,726
Homestead and Rollback	105,811
Local Government	75,400
Auto License	72,686
Permissive Tax	12,648
COPS Grant	12,476
Estate Tax	9,978
Total	<u><u>\$497,725</u></u>

Note 8 - 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, 2004.

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
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Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Governmental Activities:				
Capital assets not being depreciated				
Land	\$6,476	\$0	\$0	\$6,476
Capital assets being depreciated				
Buildings and Improvements	969,672	0	0	969,672
Furniture, Fixtures and Equipment	436,105	141,590	0	577,695
Vehicles	966,181	37,000	0	1,003,181
Infrastructure:				
Roads	0	265,061	0	265,061
Storm Sewers	0	297,033	0	297,033
Sidewalks	0	49,678	0	49,678
Curbs	0	52,425	0	52,425
Total capital assets being depreciated	2,371,958	842,787	0	3,214,745
Accumulated depreciation				
Buildings and Improvements	(441,921)	(19,497)	0	(461,418)
Furniture, Fixtures and Equipment	(229,567)	(45,596)	0	(275,163)
Vehicles	(454,074)	(66,126)	0	(520,200)
Infrastructure:				
Roads	0	(26,506)	0	(26,506)
Storm Sewers	0	(5,941)	0	(5,941)
Sidewalks	0	(1,242)	0	(1,242)
Curbs	0	(1,048)	0	(1,048)
Total accumulated depreciation	(1,125,562)	(165,956) *	0	(1,291,518)
Capital assets being depreciated, net	1,246,396	676,831	0	1,923,227
Governmental activities capital assets, net	\$1,252,872	\$676,831	\$0	\$1,929,703

City of Cortland, Ohio
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	Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Business type activities:				
Capital assets not being depreciated				
Land	\$687	\$0	\$0	\$687
Capital assets being depreciated				
Furniture, Fixtures and Equipment	133,473	0	0	133,473
Vehicles	109,842	0	0	109,842
Infrastructure:				
Water Lines	5,199,100	0	0	5,199,100
Sewer Lines	8,541,936	0	0	8,541,936
Total capital assets being depreciated	13,984,351	0	0	13,984,351
Accumulated depreciation				
Furniture, Fixtures and Equipment	(69,569)	(8,970)	0	(78,539)
Vehicles	(70,572)	(8,796)	0	(79,368)
Infrastructure:				
Water Lines	(1,647,433)	(99,991)	0	(1,747,424)
Sewer Lines	(2,888,883)	(161,452)	0	(3,050,335)
Total accumulated depreciation	(4,676,457)	(279,209)	0	(4,955,666)
Capital assets being depreciated, net	9,307,894	(279,209)	0	9,028,685
Business type activities capital assets, net	\$9,308,581	(\$279,209)	\$0	\$9,029,372

* Depreciation expense was charged to governmental activities as follows:

General Government	\$29,276
Security of Persons and Property	82,649
Transportation	48,090
Basic Utility Services	5,941
Total	\$165,956

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 10 - 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
Business Type Activities			
<i>Ohio Public Works Commission Loans:</i>			
West Main Street-1994	0%	\$172,749	2014
North High Street-1998	0%	352,685	2018
South Mecca-1995	0%	507,071	2015
Governmental Activities			
<i>General Obligation Bond:</i>			
Municipal Building Bond-1986	7.125%	800,000	2006

Changes in long-term obligations of the City during 2004 were as follows:

	Outstanding 1/1/2004	Additions	Reductions	Outstanding 12/31/2004	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
West Main Street	\$86,373	\$0	\$8,638	\$77,735	\$8,638
North High Street	246,880	0	17,634	229,246	17,634
South Mecca	290,441	0	25,256	265,185	25,256
<i>Total OPWC Loans</i>	623,694	0	51,528	572,166	51,528
Compensated Absences	10,667	16,835	5,568	21,934	502
<i>Total Business Type Activities</i>	<u>\$634,361</u>	<u>\$16,835</u>	<u>\$57,096</u>	<u>\$594,100</u>	<u>\$52,030</u>
Governmental Type Activities					
<i>General Obligation Bond</i>					
Municipal Building	\$120,000	\$0	\$40,000	\$80,000	\$40,000
Capital Leases	11,932	0	5,792	6,140	6,140
Compensated Absences	51,569	36,685	19,331	68,923	3,684
<i>Total Governmental Type Activities</i>	<u>\$183,501</u>	<u>\$36,685</u>	<u>\$65,123</u>	<u>\$155,063</u>	<u>\$49,824</u>

OPWC loans will be paid from water and sewer enterprise fund user service charges. The general obligation bond will be paid from the proceeds of property tax. Compensated absences will be paid from the general fund, the street construction, maintenance and repair, police levy and fire levy special revenue funds and the water and sewer enterprise funds. Capital leases are paid from the police levy special revenue fund.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The City's overall legal debt margin was \$11,529,249 at December 31, 2004. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, are as follows:

Business Type Activities

Year	OPWC Loans
2005	\$51,527
2006	51,527
2007	51,527
2008	51,527
2009	51,527
2010-2014	253,317
2015-2018	61,214
Total	\$572,166

In 2005, and 2006 the City will be making payments on the general obligation bond in the amount of \$45,700 and \$42,850 respectively. Each of these payments includes \$40,000 in principal with the remainder going to interest.

Note 11 – Capital Leases

In prior years, the City entered into a lease agreement for the acquisition of a vehicle. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No.13, "Accounting for Leases," and has been recorded on the government-wide statements. The vehicle has been capitalized in the amount of \$18,440 the present value of the minimum lease payments at the inception of the lease. The book value as of December 31, 2004 was \$12,862. In 2005, the City will be making a lease payment of \$6,508 which is made up of \$6,140 in principal and \$368 in interest. Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the police levy special revenue fund. These expenditures are reflected as program expenditures on a budgetary basis.

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 of the fire department can be paid a maximum of 480 hours of accumulated, unused sick leave. Police department, service department and all other employees are paid at 50 percent, 100 percent and 100 percent respectively, of their accumulated, unused sick leave, with a maximum of 60 days.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 percent 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.

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 or (800) 222-7377.

For the year ended December 31, 2004, 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 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 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, 2004, 2003, and 2002 were \$63,196, \$53,534 and \$46,037 respectively; 71.26 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$1,626 made by the City and \$1,020 made by plan members.

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 police

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

and firefighters were \$49,601 and \$64,869 for the year ended December 31, 2004, \$46,913 and \$61,908 for the year ended December 31, 2003, and \$48,433 and \$57,872 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 71.58 percent for police and 72.14 percent for firefighters has been contributed for 2004 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 granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 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's latest actuarial review performed as of December 31, 2003, 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 between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$26,470. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 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 the postemployment health care program during 2004 and 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 2004 that were used to fund postemployment benefits were \$32,716 for police and \$30,937 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 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 2004, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Westfield Insurance Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	2,000,000
	Commercial Property	3,000,000
	Data Processing	23,700
General Star Insurance Company	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 Basic Financial Statements
For the Year Ended December 31, 2004

Note 16 - 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 2004, the City made no contributions to the Eastgate Development and Transportation Agency. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

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 2004, the City contributed \$1,434 to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2004 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 and Other Matters

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 or other matters 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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be deducted 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**