



**City of Cortland
Trumbull County, Ohio**

**Regular Audit
For the Years Ended December 31, 2005 & 2006**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountant's Report* of the City of Cortland, Trumbull County, prepared by Canter and Company, for the audit period January 1, 2005 to December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 17, 2007

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INDEPENDENT ACCOUNTANTS' REPORT

To the City Council
City of Cortland, Ohio

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 years ended December 31, 2005 and 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2005 and 2006, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Fire Levy, Police Levy, and Street Construction, Maintenance and Repair Funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007, on our consideration of the City of Cortland, Ohio's internal control over financial reporting and on 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 and 47 through 54, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

CANTER & COMPANY

Youngstown, Ohio
October 16, 2007

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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, 2005. 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 second publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City of Cortland exceeded liabilities by \$12,971,079 at December 31, 2005.
- Total net assets increased by \$305,858. Governmental activities accounted for a \$303,094 increase, while business-type activities accounted for a \$2,764 increase.
- Total capital assets decreased \$50,653, or 0.5 percent from 2004. Governmental capital assets increased \$40,221 while business-type capital assets decreased \$90,874.
- The City had \$40,000 in general obligation bonds outstanding at December 31, 2005 as compared to \$80,000 at December 31, 2004. The City also had business-type OPWC loans outstanding at December 31, 2005 in the amount of \$520,638, as compared to \$572,166 at December 31, 2004.
- Total liabilities increased \$271,971. Governmental activities liabilities increased \$171,516 and business-type activities liabilities increased \$100,455.

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 2005?" 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

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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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.

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
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The City of Cortland maintains twelve 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 and the Fire Levy 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 2005 compared to 2004.

	Table 1					
	<i>Net Assets</i>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Current and Other Assets	\$3,713,266	\$3,278,877	\$1,465,881	\$1,271,788	\$5,179,147	\$4,550,665
Capital Assets, Net	<u>1,969,924</u>	<u>1,929,703</u>	<u>8,938,498</u>	<u>9,029,372</u>	<u>10,908,422</u>	<u>10,959,075</u>
Total Assets	<u>5,683,190</u>	<u>5,208,580</u>	<u>10,404,379</u>	<u>10,301,160</u>	<u>16,087,569</u>	<u>15,509,740</u>
Liabilities						
Current Liabilities	2,128,401	2,035,650	185,445	59,706	2,313,846	2,095,356
Long-Term Liabilities						
Due Within One Year	88,460	49,824	62,336	52,030	150,796	101,854
Due in More Than One Year	<u>145,368</u>	<u>105,239</u>	<u>506,480</u>	<u>542,070</u>	<u>651,848</u>	<u>647,309</u>
Total Liabilities	<u>2,362,229</u>	<u>2,190,713</u>	<u>754,261</u>	<u>653,806</u>	<u>3,116,490</u>	<u>2,844,519</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,908,266	1,843,563	8,417,860	8,457,206	10,326,126	10,300,769
Restricted for:						
Debt Service	17,921	24,423	0	0	17,921	24,423
Police Levy	207,376	0	0	0	207,376	0
Streets	258,751	423,060	0	0	258,751	423,060
Fire Levy	168,710	0	0	0	168,710	0
Other Purposes	183,728	432,847	0	0	183,728	432,847
Unrestricted	<u>576,209</u>	<u>293,974</u>	<u>1,232,258</u>	<u>1,190,148</u>	<u>1,808,467</u>	<u>1,484,122</u>
Total Net Assets	<u>\$3,320,961</u>	<u>\$3,017,867</u>	<u>\$9,650,118</u>	<u>\$9,647,354</u>	<u>\$12,971,079</u>	<u>\$12,665,221</u>

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For the City of Cortland, total assets exceeded total liabilities by \$12,971,079 at the close of 2005. Of the total net assets, capital assets, net of related debt make up \$10,326,126 or 79.6 percent.

Total assets of the City increased \$577,829 from 2004 due mainly to an increase in cash balances at December 31, 2005, increase to accounts receivable and slight increases in property taxes receivable. The increase in City-wide liabilities of \$271,971 was due to increases in accounts payable, accrued wages, contracts payable and deferred revenue.

Governmental net assets increased \$303,094 during 2005, and business-type net assets increased \$2,764. 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. The following table provides a summary of the City's net assets for 2005 compared to 2004.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$362,417	\$265,827	\$1,354,185	\$1,394,310	\$1,716,602	\$1,660,137
Operating Grants	546,912	770,367	0	0	546,912	770,367
Capital Grants	0	127,238	0	0	0	127,238
Total Program Revenues	909,329	1,163,432	1,354,185	1,394,310	2,263,514	2,557,742
General Revenues						
Property Taxes	1,897,636	1,841,596	0	0	1,897,636	1,841,596
Grants and Entitlements	421,441	410,806	0	0	421,441	410,806
Investment Earnings	57,749	25,157	0	0	57,749	25,157
Gain on Sale of Capital Assets	4,275	0	0	0	4,275	0
Other	12,569	9,458	7,214	3,288	19,783	12,746
Total General Revenues	2,393,670	2,287,017	7,214	3,288	2,400,884	2,290,305
Total Revenues	\$3,302,999	\$3,450,449	\$1,361,399	\$1,397,598	\$4,664,398	\$4,848,047

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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Table 2 (continued)
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Program Expenses						
General Government	\$526,958	\$1,182,856	\$0	\$0	\$526,958	\$1,182,856
Security of Persons and Property	2,142,730	1,692,720	0	0	2,142,730	1,692,720
Public Health and Welfare	15,703	0	0	0	15,703	0
Leisure Time Activities	17,202	29,329	0	0	17,202	29,329
Community Environment	37,448	38,632	0	0	37,448	38,632
Transportation	233,397	360,579	0	0	233,397	360,579
Basic Utility Services	20,209	5,941	0	0	20,209	5,941
Interest and Fiscal Charges	6,258	8,869	0	0	6,258	8,869
Water	0	0	471,325	530,260	471,325	530,260
Sewer	0	0	887,310	1,067,935	887,310	1,067,935
Total Program Expenses	2,999,905	3,318,926	1,358,635	1,598,195	4,358,540	4,917,121
Increase (Decrease) in Net Assets	303,094	131,523	2,764	(200,597)	305,858	(69,074)
Net Assets Beginning of Year	3,017,867	2,886,344	9,647,354	9,847,951	12,665,221	12,734,295
Net Assets End of Year	\$3,320,961	\$3,017,867	\$9,650,118	\$9,647,354	\$12,971,079	\$12,665,221

Governmental Activities

Several sources fund our governmental activities with the City property tax being the largest component, contributing \$1,897,636, or 57.5 percent of the \$3,302,999 total governmental revenue. Program revenues are the next most important source of revenue generating \$909,329 or 27.5 percent. All other revenues including grants and entitlements, interest and other revenue accounted for \$496,034 or 15.0 percent of total governmental revenue.

Major expense activities are the operating costs associated with security of persons and property. Police and fire account for \$2,142,730 or 71.4 percent of the total governmental expenditures. The City of Cortland continued to provide a wide range of community services and programs in 2005. Transportation at 7.8 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.

During 2005, general government expenses decreased \$655,898 from 2004. The reason for this decrease was that the City undertook and completed three infrastructure projects in 2004 and these contractual service expenses did not reoccur in 2005.

Business-Type Activities

Business-type activities include the City's water and sewer operations. Net assets for 2005 increased \$2,764 due mainly to an increase in accounts receivable offset by capital assets decreasing \$90,874 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, 2005
Unaudited

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 beginning on page 16 and is accounted for using the modified accrual basis of accounting.

At the end of 2005 the City of Cortland reported combined governmental fund balances of \$1,153,134. Of this amount, \$1,075,910 constitutes unreserved balances, which is available for spending. The remaining \$77,224 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 \$3,355,910 and expenditures of \$2,994,742 leaving a difference of revenues over expenditures of \$361,168. 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 2005, had a balance of \$496,811, an increase of \$289,624 from 2004. This increase was due mainly to the fact that the City did not fund as many projects from the general fund this year and also was a result of receiving \$161,821 in grant money for a reimbursement to the general fund in 2005.

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 2005, 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 2005 general fund revenues were budgeted at \$849,112, final budgeted revenues were \$869,112 and actual revenues amounted to \$883,964. Original appropriations in the general fund were budgeted at \$1,047,990, final appropriations were \$1,067,990 and actual expenditures amounted to \$658,219. The significant differences between the general fund's original and final amended budget are due to increases in inheritance taxes and interest income. The reason final appropriations exceeded actual expenditures by such a significant amount is that certain projects that were expected to start in the current fiscal year are being delayed until next fiscal year.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2005 balances of capital assets as compared to 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$6,476	\$6,476	\$687	\$687	\$7,163	\$7,163
Buildings and Improvements	489,532	508,254	0	0	489,532	508,254
Furniture, Fixtures and Equipment	268,980	302,532	50,910	54,934	319,890	357,466
Vehicles	453,673	482,981	24,774	30,474	478,447	513,455
Infrastructure	751,263	629,460	8,862,127	8,943,277	9,613,390	9,572,737
Total Capital Assets	\$1,969,924	\$1,929,703	\$8,938,498	\$9,029,372	\$10,908,422	\$10,959,075

Total capital assets of the City of Cortland were \$10,908,422, a decrease of \$50,653 from 2004. Capital assets for governmental activities increased \$40,221 due to the City building new streets and purchasing vehicles in 2005. Capital assets for business-type activities were \$8,938,498, a decrease of \$90,874 from 2004. 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, 2005, the City of Cortland had governmental long-term obligations of \$233,828 in bonds, capital leases and compensated absences outstanding. At December 31, 2005 the City had \$568,816 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	
	2005	2004	2005	2004	2005	2004
General Obligation Bond	\$40,000	\$80,000	\$0	\$0	\$40,000	\$80,000
OPWC Loans	0	0	520,638	572,166	520,638	572,166
Capital Leases	21,658	6,140	0	0	21,658	6,140
Compensated Absences	172,170	68,923	48,178	21,934	220,348	90,857
Total	\$233,828	\$155,063	\$568,816	\$594,100	\$802,644	\$749,163

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

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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 11 to the basic financial statements.

Current Financial Related Activities

The general fund balance was \$496,811 at the end of 2005, an increase of \$289,624 from the previous year balance of \$207,187. The general fund now has 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. A rate increase will be proposed in 2006 to generate additional funding in the water fund which will need additional operating revenue, as well as funding for major projects. 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 available in the sewer fund.

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

City of Cortland, Ohio
Statement of Net Assets
 December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,175,165	\$1,112,435	\$2,287,600
Accrued Interest Receivable	100	0	100
Accounts Receivable	40,811	345,672	386,483
Intergovernmental Receivable	431,375	0	431,375
Prepaid Items	29,881	7,774	37,655
Property Taxes Receivable	2,035,934	0	2,035,934
Nondepreciable Capital Assets	6,476	687	7,163
Depreciable Capital Assets, Net	1,963,448	8,937,811	10,901,259
<i>Total Assets</i>	<u>5,683,190</u>	<u>10,404,379</u>	<u>16,087,569</u>
Liabilities			
Accounts Payable	35,054	64,337	99,391
Accrued Wages	11,350	2,379	13,729
Contracts Payable	0	82,441	82,441
Intergovernmental Payable	90,683	36,288	126,971
Accrued Interest Payable	834	0	834
Deferred Revenue	1,990,480	0	1,990,480
Long-Term Liabilities:			
Due Within One Year	88,460	62,336	150,796
Due In More Than One Year	145,368	506,480	651,848
<i>Total Liabilities</i>	<u>2,362,229</u>	<u>754,261</u>	<u>3,116,490</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,908,266	8,417,860	10,326,126
Restricted for:			
Debt Service	17,921	0	17,921
Police Levy	207,376	0	207,376
Streets	258,751	0	258,751
Fire Levy	168,710	0	168,710
Other Purposes	183,728	0	183,728
Unrestricted	576,209	1,232,258	1,808,467
<i>Total Net Assets</i>	<u>\$3,320,961</u>	<u>\$9,650,118</u>	<u>\$12,971,079</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General Government	\$526,958	\$12,155	\$0
Security of Persons and Property	2,142,730	346,382	271,073
Public Health and Welfare	15,703	0	0
Leisure Time Activities	17,202	0	0
Community Environment	37,448	3,465	0
Transportation	233,397	415	275,839
Basic Utility Services	20,209	0	0
Interest and Fiscal Charges	6,258	0	0
<i>Total Governmental Activities</i>	<u>2,999,905</u>	<u>362,417</u>	<u>546,912</u>
Business-Type Activities:			
Water	471,325	364,421	0
Sewer	887,310	989,764	0
<i>Total Business-Type Activities</i>	<u>1,358,635</u>	<u>1,354,185</u>	<u>0</u>
<i>Total</i>	<u><u>\$4,358,540</u></u>	<u><u>\$1,716,602</u></u>	<u><u>\$546,912</u></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
Gain on Sale of Capital Assets
Other

Total General Revenues

Change in Net Assets

*Net Assets Beginning of
Year - Restated (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
(\$514,803)	\$0	(\$514,803)
(1,525,275)	0	(1,525,275)
(15,703)	0	(15,703)
(17,202)	0	(17,202)
(33,983)	0	(33,983)
42,857	0	42,857
(20,209)	0	(20,209)
(6,258)	0	(6,258)
<u>(2,090,576)</u>	<u>0</u>	<u>(2,090,576)</u>
0	(106,904)	(106,904)
0	102,454	102,454
<u>0</u>	<u>(4,450)</u>	<u>(4,450)</u>
<u>(2,090,576)</u>	<u>(4,450)</u>	<u>(2,095,026)</u>
460,321	0	460,321
37,827	0	37,827
627,032	0	627,032
772,456	0	772,456
421,441	0	421,441
57,749	0	57,749
4,275	0	4,275
12,569	7,214	19,783
<u>2,393,670</u>	<u>7,214</u>	<u>2,400,884</u>
303,094	2,764	305,858
<u>3,017,867</u>	<u>9,647,354</u>	<u>12,665,221</u>
<u>\$3,320,961</u>	<u>\$9,650,118</u>	<u>\$12,971,079</u>

City of Cortland, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Police Levy	Fire Levy
Assets			
Equity in Pooled Cash and Cash Equivalents	\$482,815	\$271,881	\$167,758
Receivables:			
Taxes	543,546	824,020	668,368
Accounts	364	0	40,217
Accrued Interest	100	0	0
Intergovernmental Receivable	112,758	47,019	38,040
Interfund Receivable	13,890	0	0
Prepaid Items	12,266	9,441	6,230
<i>Total Assets</i>	<u>\$1,165,739</u>	<u>\$1,152,361</u>	<u>\$920,613</u>
Liabilities			
Accounts Payable	\$13,412	\$4,683	\$9,976
Accrued Wages	1,702	4,041	4,862
Interfund Payable	0	0	0
Intergovernmental Payable	11,892	32,466	39,814
Deferred Revenue	641,922	871,039	706,408
<i>Total Liabilities</i>	<u>668,928</u>	<u>912,229</u>	<u>761,060</u>
Fund Balances			
Reserved for Encumbrances	30,123	5,551	1,481
Unreserved:			
Undesignated, Reported in:			
General Fund	466,688	0	0
Special Revenue Funds	0	234,581	158,072
Debt Service Fund	0	0	0
<i>Total Fund Balances</i>	<u>496,811</u>	<u>240,132</u>	<u>159,553</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,165,739</u>	<u>\$1,152,361</u>	<u>\$920,613</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, 2005*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$1,153,134
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$252,711	\$1,175,165	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,969,924
0	2,035,934	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
230	40,811	Property and Other Taxes	45,454
0	100	Intergovernmental	387,111
233,558	431,375		
0	13,890		
1,944	29,881		
<u>\$488,443</u>	<u>\$3,727,156</u>	Total	432,565
		In the statement of activities, interest is accrued on outstanding bonds and leases whereas in governmental funds, an interest expenditure is reported when due.	(834)
\$6,983	\$35,054	Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
745	11,350	General Obligation Bond	(40,000)
13,890	13,890	Compensated Absences	(172,170)
6,511	90,683	Capital Leases	(21,658)
203,676	2,423,045		
<u>231,805</u>	<u>2,574,022</u>	Total	<u>(233,828)</u>
		<i>Net Assets of Governmental Activities</i>	<u><u>\$3,320,961</u></u>
40,069	77,224		
0	466,688		
197,814	590,467		
18,755	18,755		
<u>256,638</u>	<u>1,153,134</u>		
<u>\$488,443</u>	<u>\$3,727,156</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Police Levy	Fire Levy
Revenues			
Property and Other Taxes	\$461,691	\$775,887	\$629,811
Charges for Services	12,155	0	215,811
Licenses and Permits	121,686	0	0
Fines and Forfeitures	8,425	0	0
Intergovernmental	231,664	97,825	79,280
Interest	54,449	0	0
Contributions and Donations	0	50	50
Other	0	10,483	0
<i>Total Revenues</i>	<u>890,070</u>	<u>884,245</u>	<u>924,952</u>
Expenditures			
Current:			
General Government	496,205	0	0
Security of Persons and Property	15,655	834,868	921,041
Public Health Services	15,703	0	0
Leisure Time Activities	17,202	0	0
Community Environment	37,448	0	0
Transportation	0	0	0
Basic Utility Services	22,508	0	0
Debt Service:			
Principal Retirement	0	18,053	0
Interest and Fiscal Charges	0	368	0
<i>Total Expenditures</i>	<u>604,721</u>	<u>853,289</u>	<u>921,041</u>
<i>Excess of Revenues Over Expenditures</i>	<u>285,349</u>	<u>30,956</u>	<u>3,911</u>
Other Financing Sources			
Sale of Capital Assets	4,275	0	0
Inception of Capital Lease	0	33,571	0
<i>Total Other Financing Sources</i>	<u>4,275</u>	<u>33,571</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	289,624	64,527	3,911
<i>Fund Balances Beginning of Year</i>	<u>207,187</u>	<u>175,605</u>	<u>155,642</u>
<i>Fund Balances End of Year</i>	<u>\$496,811</u>	<u>\$240,132</u>	<u>\$159,553</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, 2005*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$399,014
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$38,926	\$1,906,315	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.	
3,465	231,431	Capital Outlay	213,030
0	121,686	Depreciation	<u>(172,809)</u>
875	9,300		
607,991	1,016,760	Total	40,221
3,300	57,749	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	100	Property and Other Taxes	(8,679)
2,086	12,569	Intergovernmental	<u>(48,507)</u>
<u>656,643</u>	<u>3,355,910</u>		
		Total	(57,186)
954	497,159	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.	58,053
245,028	2,016,592	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(190)
0	15,703	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.	(103,247)
0	17,202	Other financing sources in the governmental funds, such as the inception of capital leases, increase long-term liabilities in the statement of net assets.	<u>(33,571)</u>
0	37,448	<i>Change in Net Assets of Governmental Activities</i>	<u>\$303,094</u>
324,009	324,009		
0	22,508		
40,000	58,053		
5,700	6,068		
<u>615,691</u>	<u>2,994,742</u>		
40,952	361,168		
0	4,275		
0	33,571		
0	37,846		
40,952	399,014		
215,686	754,120		
<u>\$256,638</u>	<u>\$1,153,134</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$455,529	\$455,529	\$461,691	\$6,162
Charges for Services	20,800	11,800	12,155	355
Licenses and Permits	78,975	107,975	121,686	13,711
Fines and Forfeitures	6,500	6,500	8,280	1,780
Intergovernmental	238,033	238,033	231,060	(6,973)
Interest	49,275	49,275	49,092	(183)
<i>Total Revenues</i>	<u>849,112</u>	<u>869,112</u>	<u>883,964</u>	<u>14,852</u>
Expenditures				
Current:				
General Government	825,439	845,439	515,473	329,966
Security of Persons and Property	20,000	20,000	17,069	2,931
Public Health Services	20,000	20,000	15,703	4,297
Leisure Time Activities	57,551	57,551	33,450	24,101
Community Environment	48,050	48,050	40,266	7,784
Basic Utility Services	76,950	76,950	36,258	40,692
<i>Total Expenditures</i>	<u>1,047,990</u>	<u>1,067,990</u>	<u>658,219</u>	<u>409,771</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(198,878)</u>	<u>(198,878)</u>	<u>225,745</u>	<u>424,623</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	4,275	4,275	4,275	0
Advances Out	(12,000)	(12,000)	0	12,000
<i>Total Other Financing Sources (Uses)</i>	<u>(7,725)</u>	<u>(7,725)</u>	<u>4,275</u>	<u>12,000</u>
<i>Net Change in Fund Balance</i>	<u>(206,603)</u>	<u>(206,603)</u>	<u>230,020</u>	<u>436,623</u>
<i>Fund Balance Beginning of Year</i>	<u>200,017</u>	<u>200,017</u>	<u>200,017</u>	<u>0</u>
Prior Year Encumbrances Appropriated	6,586	6,586	6,586	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$436,623</u>	<u>\$436,623</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Levy Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$775,398	\$775,398	\$775,887	\$489
Intergovernmental	95,000	95,000	96,476	1,476
Contributions and Donations	0	500	50	(450)
Other	0	9,500	10,483	983
<i>Total Revenues</i>	870,398	880,398	882,896	2,498
Expenditures				
Current:				
Security of Persons and Property	1,077,409	1,087,409	827,959	259,450
<i>Net Change in Fund Balance</i>	(207,011)	(207,011)	54,937	261,948
<i>Fund Balance Beginning of Year</i>	207,011	207,011	207,011	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$261,948</u>	<u>\$261,948</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property and Other Taxes	\$625,158	\$625,158	\$629,811	\$4,653
Charges for Services	192,500	207,500	219,208	11,708
Intergovernmental	77,500	77,500	78,140	640
Contributions and Donations	0	0	50	50
Other	5,000	5,000	0	(5,000)
<i>Total Revenues</i>	900,158	915,158	927,209	12,051
Expenditures				
Current:				
Security of Persons and Property	1,046,425	1,061,425	914,851	146,574
<i>Net Change in Fund Balance</i>	(146,267)	(146,267)	12,358	158,625
<i>Fund Balance Beginning of Year</i>	146,267	146,267	146,267	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$158,625</u>	<u>\$158,625</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$44,381	\$1,068,054	\$1,112,435
Accounts Receivable	85,400	260,272	345,672
Prepaid Items	3,887	3,887	7,774
<i>Total Current Assets</i>	<u>133,668</u>	<u>1,332,213</u>	<u>1,465,881</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	0	687	687
Depreciable Capital Assets, Net	3,462,161	5,475,650	8,937,811
<i>Total Noncurrent Assets</i>	<u>3,462,161</u>	<u>5,476,337</u>	<u>8,938,498</u>
<i>Total Assets</i>	<u>3,595,829</u>	<u>6,808,550</u>	<u>10,404,379</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	6,965	57,372	64,337
Accrued Wages	1,299	1,080	2,379
Contracts Payable	0	82,441	82,441
Intergovernmental Payable	8,846	27,442	36,288
Compensated Absences Payable	5,377	5,431	10,808
OPWC Loans Payable	17,634	33,894	51,528
<i>Total Current Liabilities</i>	<u>40,121</u>	<u>207,660</u>	<u>247,781</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	22,618	14,752	37,370
OPWC Loans Payable	193,978	275,132	469,110
<i>Total Long-Term Liabilities</i>	<u>216,596</u>	<u>289,884</u>	<u>506,480</u>
<i>Total Liabilities</i>	<u>256,717</u>	<u>497,544</u>	<u>754,261</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,250,549	5,167,311	8,417,860
Unrestricted	88,563	1,143,695	1,232,258
<i>Total Net Assets</i>	<u>\$3,339,112</u>	<u>\$6,311,006</u>	<u>\$9,650,118</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, 2005*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$332,051	\$970,649	\$1,302,700
Tap-In Fees	32,370	19,115	51,485
Other	5,956	1,258	7,214
<i>Total Operating Revenues</i>	<u>370,377</u>	<u>991,022</u>	<u>1,361,399</u>
Operating Expenses			
Personal Services	261,209	208,705	469,914
Materials and Supplies	48,842	33,813	82,655
Contractual Services	53,724	472,001	525,725
Depreciation	107,550	172,791	280,341
<i>Total Operating Expenses</i>	<u>471,325</u>	<u>887,310</u>	<u>1,358,635</u>
<i>Change in Net Assets</i>	(100,948)	103,712	2,764
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>3,440,060</u>	<u>6,207,294</u>	<u>9,647,354</u>
<i>Net Assets End of Year</i>	<u>\$3,339,112</u>	<u>\$6,311,006</u>	<u>\$9,650,118</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, 2005

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$356,986	\$1,027,047	\$1,384,033
Tap In Fees	32,370	19,115	51,485
Other Operating Revenues	5,956	1,258	7,214
Cash Payments to Suppliers for Materials and Supplies	(58,345)	(33,709)	(92,054)
Cash Payments for Employee Services and Benefits	(243,871)	(195,736)	(439,607)
Cash Payments for Contractual Services	(56,696)	(356,660)	(413,356)
<i>Net Cash Provided by Operating Activities</i>	<u>36,400</u>	<u>461,315</u>	<u>497,715</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(81,620)	(107,847)	(189,467)
Principal Paid on OPWC Loans	(17,634)	(33,894)	(51,528)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(99,254)</u>	<u>(141,741)</u>	<u>(240,995)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(62,854)	319,574	256,720
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>107,235</u>	<u>748,480</u>	<u>855,715</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$44,381</u>	<u>\$1,068,054</u>	<u>\$1,112,435</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	(\$100,948)	\$103,712	\$2,764
Adjustments:			
Depreciation	107,550	172,791	280,341
(Increase) Decrease in Assets:			
Accounts Receivable	18,997	51,404	70,401
Prepaid Items	(3,887)	(3,887)	(7,774)
Increase (Decrease) in Liabilities:			
Accounts Payable	(2,280)	56,170	53,890
Contracts Payable	0	82,441	82,441
Accrued Wages	407	343	750
Compensated Absences Payable	15,108	11,136	26,244
Intergovernmental Payable	1,453	(12,795)	(11,342)
<i>Total Adjustments</i>	<u>137,348</u>	<u>357,603</u>	<u>494,951</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$36,400</u>	<u>\$461,315</u>	<u>\$497,715</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005

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
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For the Year Ended December 31, 2005

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.

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.

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, but which were levied to finance 2006 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.

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

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 2005, 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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$54,449 which includes \$44,824 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, 2005, 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

The City's infrastructure consists of roads, storm sewers, sidewalks, curbs and water and sewer lines and includes infrastructure acquired prior to December 31, 1980.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

J. 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.

K. 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.

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,

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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 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 restricted net assets of \$836,486, of which \$57,942 is restricted by enabling legislation. Net assets restricted for other purposes include street construction, maintenance and repair, recreational activities and law enforcement education.

The City applies restricted resources first 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.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 and final 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's Fund Equity

A. Change in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

B. Restatement of Prior Year's Fund Equity

During 2005, it was determined that accounts receivable were understated in the water and sewer enterprise funds by \$23,375 and \$74,022, respectively. This restatement changed fund equity in the water and sewer enterprise funds from \$3,416,685 and \$6,133,272 to \$3,440,060 and \$6,207,294, respectively.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received and not reported by the City on the operating statements (budget), but reported on the GAAP basis operating statements.

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 Balances

	General	Police Levy	Fire Levy
GAAP Basis	\$289,624	\$64,527	\$3,911
Net Adjustments for			
Revenue Accruals	(11,398)	(34,920)	2,257
Beginning Unrecorded Cash	(132)	0	0
Ending Unrecorded Cash	5,424	0	0
Net Adjustments for			
Expenditure Accruals	(23,270)	31,413	11,078
Encumbrances	(30,228)	(6,083)	(4,888)
Budget Basis	\$230,020	\$54,937	\$12,358

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

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

Interim monies can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,463,295 of the City's bank balance of \$1,576,295 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

At December 31, 2005, the City had an investment with STAROhio. The fair value of this investment was \$800,181 and had an average maturity of 39 days.

Credit Risk STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

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 2005 for real and public property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. 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, 2005, was \$19.66 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$114,978,670
Tangible Personal	6,919,417
Public Utility	2,351,170
Total	<u>\$124,249,257</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.

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 represents real, tangible personal property taxes and public utility taxes which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the general fund, the police levy fund and fire levy special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 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, 2005, 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 and are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Amount
Gasoline Tax	\$135,464
Homestead and Rollback	116,786
Auto License	84,204
Local Government	75,401
COPS Grant	13,890
Estate Tax	5,630
Total	\$431,375

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2005.

B. Litigation

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

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
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	577,695	6,272	(4,225)	579,742
Vehicles	1,003,181	33,571	(52,391)	984,361
Infrastructure:				
Roads	265,061	164,779	0	429,840
Storm Sewers	297,033	8,408	0	305,441
Sidewalks	49,678	0	0	49,678
Curbs	52,425	0	0	52,425
Total capital assets being depreciated	\$3,214,745	\$213,030	(\$56,616)	\$3,371,159

City of Cortland, Ohio
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For the Year Ended December 31, 2005

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
Governmental Activities:				
Accumulated depreciation				
Buildings and Improvements	(\$461,418)	(\$18,722)	\$0	(\$480,140)
Furniture, Fixtures and Equipment	(275,163)	(39,824)	4,225	(310,762)
Vehicles	(520,200)	(62,879)	52,391	(530,688)
Infrastructure:				
Roads	(26,506)	(42,984)	0	(69,490)
Storm Sewers	(5,941)	(6,109)	0	(12,050)
Sidewalks	(1,242)	(1,242)	0	(2,484)
Curbs	(1,048)	(1,049)	0	(2,097)
Total accumulated depreciation	<u>(1,291,518)</u>	<u>(172,809) *</u>	<u>56,616</u>	<u>(1,407,711)</u>
Capital assets being depreciated, net	<u>1,923,227</u>	<u>40,221</u>	<u>0</u>	<u>1,963,448</u>
Governmental activities capital assets, net	<u><u>\$1,929,703</u></u>	<u><u>\$40,221</u></u>	<u><u>\$0</u></u>	<u><u>\$1,969,924</u></u>
Business type activities:				
Capital assets not being depreciated				
Land	<u>\$687</u>	<u>\$0</u>	<u>\$0</u>	<u>\$687</u>
Capital assets being depreciated				
Furniture, Fixtures and Equipment	133,473	5,494	0	138,967
Vehicles	109,842	0	(9,074)	100,768
Infrastructure:				
Water Lines	5,199,100	78,873	0	5,277,973
Sewer Lines	8,541,936	105,100	0	8,647,036
Total capital assets being depreciated	<u>13,984,351</u>	<u>189,467</u>	<u>(9,074)</u>	<u>14,164,744</u>
Accumulated depreciation				
Furniture, Fixtures and Equipment	(78,539)	(9,518)	0	(88,057)
Vehicles	(79,368)	(5,700)	9,074	(75,994)
Infrastructure:				
Water Lines	(1,747,424)	(101,569)	0	(1,848,993)
Sewer Lines	(3,050,335)	(163,554)	0	(3,213,889)
Total accumulated depreciation	<u>(4,955,666)</u>	<u>(280,341)</u>	<u>9,074</u>	<u>(5,226,933)</u>
Capital assets being depreciated, net	<u>9,028,685</u>	<u>(90,874)</u>	<u>0</u>	<u>8,937,811</u>
Business type activities capital assets, net	<u><u>\$9,029,372</u></u>	<u><u>(\$90,874)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,938,498</u></u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$25,879
Security of Persons and Property	82,500
Transportation	58,321
Basic Utility Services	6,109
Total	<u><u>\$172,809</u></u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 10 - 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 2005, 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.

Note 11 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Changes in long-term obligations of the City during 2005 were as follows:

	Outstanding 1/1/2005	Additions	Reductions	Outstanding 12/31/2005	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
West Main Street	\$77,735	\$0	\$8,638	\$69,097	\$8,638
North High Street	229,246	0	17,634	211,612	17,634
South Mecca	265,185	0	25,256	239,929	25,256
<i>Total OPWC Loans</i>	<u>572,166</u>	<u>0</u>	<u>51,528</u>	<u>520,638</u>	<u>51,528</u>
Compensated Absences	21,934	26,746	502	48,178	10,808
<i>Total Business Type Activities</i>	<u>\$594,100</u>	<u>\$26,746</u>	<u>\$52,030</u>	<u>\$568,816</u>	<u>\$62,336</u>
Governmental Type Activities					
General Obligation Bond					
Municipal Building	\$80,000	\$0	\$40,000	\$40,000	\$40,000
Capital Leases	6,140	33,571	18,053	21,658	10,483
Compensated Absences	68,923	106,931	3,684	172,170	37,977
<i>Total Governmental Type Activities</i>	<u>\$155,063</u>	<u>\$140,502</u>	<u>\$61,737</u>	<u>\$233,828</u>	<u>\$88,460</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.

The City's overall legal debt margin was \$13,024,927 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005, are as follows:

Business Type Activities

Year	OPWC Loans
2006	\$51,528
2007	51,527
2008	51,527
2009	51,527
2010	51,527
2011-2015	227,732
2016-2018	35,270
Total	<u>\$520,638</u>

In 2006 the City will make its final payment on the general obligation bond in the amount of \$42,850. This payment includes \$40,000 in principal and \$2,850 in interest.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 12 – Capital Leases

During 2005, the City entered into a lease agreement for two police vehicles. The City also had an existing lease for a police vehicle. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and have been recorded on the government-wide statements. The vehicles have been capitalized in the amount of \$53,096 the present value of the minimum lease payments at the inception of the lease.

The assets acquired through capital leases are as follows:

<i>Asset:</i>	<u>Governmental Activities</u>
Vehicles	\$53,096
Less: Accumulated Depreciation	<u>(13,163)</u>
Total Book Value as of December 31, 2005	<u><u>\$39,933</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year Ending December 31,	
2006	\$11,912
2007	<u>11,913</u>
Total Minimum Lease Payments	23,825
Less: Amount Representing Interest	<u>(2,167)</u>
Present Value of Minimum Lease	<u><u>\$21,658</u></u>

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 13 - 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 payment of 60 days.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 14 - 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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, 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 2005 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, 2005, 2004, and 2003 were \$67,637, \$63,196 and \$53,534 respectively; 62.98 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 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.

City of Cortland, Ohio
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For the Year Ended December 31, 2005

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$86,853 and \$104,831 for the year ended December 31, 2005, \$49,601 and \$64,869 for the year ended December 31, 2004, and \$46,913 and \$61,908 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 71.47 percent for police and 70.46 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.

Note 15 - 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 2005 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, 2004, 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 0.50 percent and 6.30 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 376,109. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$28,330. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 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
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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 2005 and 2004. 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 2005 that were used to fund postemployment benefits were \$34,519 for police and \$33,851 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available), was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

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 2005, 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.

City of Cortland, Ohio
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B. Emergency Management Agency

The Emergency Management Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County that was created to ensure that the State, and the citizens residing in it, are prepared to respond to an emergency or disaster and to lead mitigation efforts against the effect of future disasters. 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 2005, 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.

Note 17 – Interfund Balances

At December 31, 2005, the City had an interfund receivable/payable between the general fund and the federal grants special revenue fund in the amount of \$13,890 which was the direct result of the timing of grant monies.

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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, 2006. 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 third publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City of Cortland exceeded liabilities by \$12,961,588 at December 31, 2006.
- Total net assets decreased by \$9,491. Governmental activities accounted for a \$201,413 increase, while business-type activities accounted for a \$210,904 decrease.
- Total capital assets increased \$350,423, or 3.21 percent from 2005. Governmental capital assets increased \$400,704 while business-type capital assets decreased \$50,281.
- The City retired the remaining \$40,000 in governmental-type general obligation bonds outstanding during 2006. The City also had business-type OPWC loans outstanding at December 31, 2006 in the amount of \$469,110, as compared to \$520,638 at December 31, 2005.
- Total liabilities increased \$147,343. Governmental activities liabilities increased \$232,469 and business-type activities liabilities decreased \$85,126.

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 2006?" 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

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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.

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*.

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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, the Police Levy, the Fire Levy and the 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 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$3,746,444	\$3,713,266	\$1,220,132	\$1,465,881	\$4,966,576	\$5,179,147
Capital Assets, Net	2,370,628	1,969,924	8,888,217	8,938,498	11,258,845	10,908,422
Total Assets	6,117,072	5,683,190	10,108,349	10,404,379	16,225,421	16,087,569
Liabilities						
Current Liabilities	2,390,884	2,128,401	146,939	185,445	2,537,823	2,313,846
Long-Term Liabilities						
Due Within One Year	63,901	88,460	75,434	62,336	139,335	150,796
Due in More Than One Year	139,913	145,368	446,762	506,480	586,675	651,848
Total Liabilities	2,594,698	2,362,229	669,135	754,261	3,263,833	3,116,490
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,359,453	1,908,266	8,419,107	8,417,860	10,778,560	10,326,126
Restricted for:						
Debt Service	0	17,921	0	0	0	17,921
Police	291,949	207,376	0	0	291,949	207,376
Fire	135,460	181,126	0	0	135,460	181,126
Street Construction, Maintenance and Repair	274,133	258,751	0	0	274,133	258,751
Other Purposes	109,331	171,312	0	0	109,331	171,312
Unrestricted	352,048	576,209	1,020,107	1,232,258	1,372,155	1,808,467
Total Net Assets	\$3,522,374	\$3,320,961	\$9,439,214	\$9,650,118	\$12,961,588	\$12,971,079

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For the City of Cortland, total assets exceeded total liabilities by \$12,961,588 at the close of 2006. Of the total net assets, invested in capital assets, net of related debt made up \$10,778,560 or 83.16 percent.

Total assets of the City increased \$137,852 from 2005 due mainly to increases in property tax receivables and capital assets offset by decrease in cash balances at December 31, 2006. The increase in City-wide liabilities of \$147,343 was due mainly to an increase in deferred revenue offset by a decrease in long-term liabilities and contracts payable.

Governmental net assets increased \$201,413 during 2006 and business-type net assets decreased \$210,904. 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. The following table provides a summary of the City's net assets for 2006 compared to 2005.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	\$298,538	\$362,417	\$1,574,870	\$1,354,185	\$1,873,408	\$1,716,602
Operating Grants	423,773	546,912	0	0	423,773	546,912
Capital Grants	17,182	0	0	0	17,182	0
Total Program Revenues	739,493	909,329	1,574,870	1,354,185	2,314,363	2,263,514
General Revenues						
Property Taxes	1,900,708	1,897,636	0	0	1,900,708	1,897,636
Grants and Entitlements	428,171	421,441	0	0	428,171	421,441
Investment Earnings	103,673	57,749	4,490	0	108,163	57,749
Gain on Sale of Capital Assets	0	4,275	0	0	0	4,275
Other	13,243	12,569	5,539	7,214	18,782	19,783
Total General Revenues	2,445,795	2,393,670	10,029	7,214	2,455,824	2,400,884
Total Revenues	\$3,185,288	\$3,302,999	\$1,584,899	\$1,361,399	\$4,770,187	\$4,664,398

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Table 2 (continued)
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Program Expenses						
General Government	\$742,482	\$526,958	\$0	\$0	742,482	526,958
Security of Persons and Property	1,949,577	2,142,730	0	0	1,949,577	2,142,730
Public Health and Welfare	26,343	15,703	0	0	26,343	15,703
Leisure Time Activities	25,625	17,202	0	0	25,625	17,202
Community Environment	36,402	37,448	0	0	36,402	37,448
Transportation	103,331	233,397	0	0	103,331	233,397
Basic Utility Services	96,362	20,209	0	0	96,362	20,209
Interest and Fiscal Charges	3,753	6,258	0	0	3,753	6,258
Water	0	0	579,267	471,325	579,267	471,325
Sewer	0	0	1,216,536	887,310	1,216,536	887,310
Total Program Expenses	2,983,875	2,999,905	1,795,803	1,358,635	4,779,678	4,358,540
Increase (Decrease) in Net Assets	201,413	303,094	(210,904)	2,764	(9,491)	305,858
Net Assets Beginning of Year	3,320,961	3,017,867	9,650,118	9,647,354	12,971,079	12,665,221
Net Assets End of Year	<u>\$3,522,374</u>	<u>\$3,320,961</u>	<u>\$9,439,214</u>	<u>\$9,650,118</u>	<u>\$12,961,588</u>	<u>\$12,971,079</u>

Governmental Activities

Several sources fund our governmental activities with the City property tax being the largest component, contributing \$1,900,708, or 59.67 percent of the \$3,185,288 total governmental revenue. Program revenues are the next most important source of revenue generating \$739,493 or 23.22 percent. All other revenues including grants and entitlements, interest and other revenue accounted for \$545,087 or 17.11 percent of total governmental revenue.

Major expense activities are the operating costs associated with security of persons and property. Police and fire account for \$1,949,577 or 65.34 percent of the total governmental expenditures. The City of Cortland continued to provide a wide range of community services and programs in 2006. Transportation at 3.46 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.

During 2006, general government expenses increased \$215,524 from 2005. The reason for this increase was additional contractual service expenses not occurring in 2005 and standard pay increases.

Business-Type Activities

Business-type activities include the City's water and sewer operations. Net assets for 2006 decreased \$210,904 due mainly to an increase in contractual services being offset by greater collections on user charges.

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Unaudited

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 2006 the City of Cortland reported combined governmental fund balances of \$963,188. Of this amount, \$949,324 constitutes unreserved balances, which is available for spending. The remaining \$13,864 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 \$3,225,174 and expenditures of \$3,415,120 leaving a difference of revenues under expenditures of \$189,946. 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 2006, had a balance of \$276,154, a decrease of \$220,657 from 2005. This decrease was due mainly to the City funding additional projects from the general fund this year.

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 2006, 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 for all funds other than the general fund. The control level of the general fund 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 2006 general fund revenues were budgeted at \$950,472, final budgeted revenues were \$941,471 and actual revenues amounted to \$925,591. The significant differences between the general fund's original and final amended budget is due to a decrease in property and other taxes estimates. Original appropriations in the general fund were budgeted at \$1,387,323, final appropriations were \$1,378,322 and actual expenditures amounted to \$1,141,840.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2006 balances of capital assets as compared to 2005.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$17,576	\$6,476	\$45,087	\$687	\$62,663	\$7,163
Buildings and Improvements	470,810	489,532	0	0	470,810	489,532
Furniture, Fixtures and Equipment	233,324	268,980	41,646	50,910	274,970	319,890
Vehicles	415,447	453,673	42,703	24,774	458,150	478,447
Infrastructure	1,233,471	751,263	8,758,781	8,862,127	9,992,252	9,613,390
Total Capital Assets	\$2,370,628	\$1,969,924	\$8,888,217	\$8,938,498	\$11,258,845	\$10,908,422

Total capital assets of the City of Cortland were \$11,258,845, an increase of \$350,423 from 2005. Capital assets for governmental activities increased \$400,704 due to the City building infrastructure in the way of new streets, storm sewers and curbs as well as purchasing vehicles in 2006. Capital assets for business-type activities were \$8,888,217, a decrease of \$50,281 from 2005. This decrease is due to the building of infrastructure in the way of sewer lines as well as purchasing vehicles in 2006, offset by 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, 2006, the City of Cortland had governmental long-term obligations of \$203,814 in capital leases and compensated absences outstanding. At December 31, 2006 the City had \$522,196 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	
	2006	2005	2006	2005	2006	2005
General Obligation Bond	\$0	\$40,000	\$0	\$0	\$0	\$40,000
OPWC Loans	0	0	469,110	520,638	469,110	520,638
Capital Leases	11,175	21,658	0	0	11,175	21,658
Compensated Absences	192,639	172,170	53,086	48,178	245,725	220,348
Total	\$203,814	\$233,828	\$522,196	\$568,816	\$726,010	\$802,644

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

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 11 to the basic financial statements.

Current Financial Related Activities

The general fund had a chance to rebuild for projects, and some of those were funded in 2006. The general fund continues 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 needs to begin building capital for major improvements over the next five to ten years. A rate increase was instituted in 2006 to generate additional funding in the water which will need additional operating revenue, as well as funding for major projects. 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 available in the sewer fund

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.

City of Cortland, Ohio
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,005,684	\$810,156	\$1,815,840
Accrued Interest Receivable	122	4,490	4,612
Accounts Receivable	34,422	398,270	432,692
Intergovernmental Receivable	403,980	0	403,980
Prepaid Items	28,935	7,216	36,151
Property Taxes Receivable	2,273,301	0	2,273,301
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	2,353,052	8,843,130	11,196,182
<i>Total Assets</i>	<u>6,117,072</u>	<u>10,108,349</u>	<u>16,225,421</u>
Liabilities			
Accounts Payable	33,446	84,829	118,275
Accrued Wages	14,487	2,607	17,094
Intergovernmental Payable	115,561	55,013	170,574
Accrued Interest Payable	307	4,490	4,797
Deferred Revenue	2,227,083	0	2,227,083
Long-Term Liabilities:			
Due Within One Year	63,901	75,434	139,335
Due In More Than One Year	139,913	446,762	586,675
<i>Total Liabilities</i>	<u>2,594,698</u>	<u>669,135</u>	<u>3,263,833</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,359,453	8,419,107	10,778,560
Restricted for:			
Police	291,949	0	291,949
Fire	135,460	0	135,460
Street, Construction, Maintenance and Repair	274,133	0	274,133
Other Purposes	109,331	0	109,331
Unrestricted	352,048	1,020,107	1,372,155
<i>Total Net Assets</i>	<u>\$3,522,374</u>	<u>\$9,439,214</u>	<u>\$12,961,588</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$742,482	\$67,495	\$0	\$0
Security of Persons and Property	1,949,577	205,350	63,311	0
Public Health and Welfare	26,343	2,158	0	0
Leisure Time Activities	25,625	2,098	0	0
Community Environment	36,402	5,976	0	0
Transportation	103,331	0	360,462	17,182
Basic Utility Services	96,362	15,461	0	0
Interest and Fiscal Charges	3,753	0	0	0
<i>Total Governmental Activities</i>	<u>2,983,875</u>	<u>298,538</u>	<u>423,773</u>	<u>17,182</u>
Business-Type Activities:				
Water	579,267	543,874	0	0
Sewer	1,216,536	1,030,996	0	0
<i>Total Business-Type Activities</i>	<u>1,795,803</u>	<u>1,574,870</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$4,779,678</u></u>	<u><u>\$1,873,408</u></u>	<u><u>\$423,773</u></u>	<u><u>\$17,182</u></u>

General Revenues

Property and Other Taxes Levied for:

General Purposes

Police Levy

Fire Levy

Grants and Entitlements not Restricted
to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

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
(\$674,987)	\$0	(\$674,987)
(1,680,916)	0	(1,680,916)
(24,185)	0	(24,185)
(23,527)	0	(23,527)
(30,426)	0	(30,426)
274,313	0	274,313
(80,901)	0	(80,901)
(3,753)	0	(3,753)
<u>(2,244,382)</u>	<u>0</u>	<u>(2,244,382)</u>
0	(35,393)	(35,393)
0	(185,540)	(185,540)
0	(220,933)	(220,933)
<u>(2,244,382)</u>	<u>(220,933)</u>	<u>(2,465,315)</u>
492,579	0	492,579
774,831	0	774,831
633,298	0	633,298
428,171	0	428,171
103,673	4,490	108,163
13,243	5,539	18,782
<u>2,445,795</u>	<u>10,029</u>	<u>2,455,824</u>
201,413	(210,904)	(9,491)
<u>3,320,961</u>	<u>9,650,118</u>	<u>12,971,079</u>
<u>\$3,522,374</u>	<u>\$9,439,214</u>	<u>\$12,961,588</u>

City of Cortland, Ohio
Balance Sheet
Governmental Funds
December 31, 2006

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
Assets				
Equity in Pooled Cash and Cash Equivalents	\$277,294	\$379,633	\$147,586	\$136,540
Receivables:				
Taxes	540,356	821,335	911,610	0
Accounts	637	0	33,555	0
Accrued Interest	122	0	0	0
Intergovernmental Receivable	121,314	41,335	33,489	167,409
Interfund Receivable	5,399	0	0	0
Prepaid Items	12,421	8,405	6,305	1,804
<i>Total Assets</i>	<u>\$957,543</u>	<u>\$1,250,708</u>	<u>\$1,132,545</u>	<u>\$305,753</u>
Liabilities				
Accounts Payable	\$21,791	\$7,117	\$3,266	\$1,109
Accrued Wages	1,723	5,840	6,307	509
Interfund Payable	0	0	0	0
Intergovernmental Payable	17,644	42,450	46,988	7,318
Deferred Revenue	640,231	862,670	945,099	141,716
<i>Total Liabilities</i>	<u>681,389</u>	<u>918,077</u>	<u>1,001,660</u>	<u>150,652</u>
Fund Balances				
Reserved for Encumbrances	98	1,529	131	1,781
Unreserved:				
Undesignated, Reported in:				
General Fund	276,056	0	0	0
Special Revenue Funds	0	331,102	130,754	153,320
<i>Total Fund Balances</i>	<u>276,154</u>	<u>332,631</u>	<u>130,885</u>	<u>155,101</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$957,543</u>	<u>\$1,250,708</u>	<u>\$1,132,545</u>	<u>\$305,753</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, 2006*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$963,188
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$64,631	\$1,005,684	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,370,628
0	2,273,301		
230	34,422		
0	122		
40,433	403,980		
0	5,399		
0	28,935		
<u>\$105,294</u>	<u>\$3,751,843</u>		
		Total	392,679
		In the statement of activities, interest is accrued on outstanding bonds and leases whereas in governmental funds, an interest expenditure is reported when due.	(307)
\$163	\$33,446		
108	14,487		
5,399	5,399		
1,161	115,561		
30,046	2,619,762		
<u>36,877</u>	<u>2,788,655</u>		
		Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
		Compensated Absences	(192,639)
		Capital Leases	(11,175)
		Total	(203,814)
		<i>Net Assets of Governmental Activities</i>	<u><u>\$3,522,374</u></u>
10,325	13,864		
0	276,056		
58,092	673,268		
<u>68,417</u>	<u>963,188</u>		
<u>\$105,294</u>	<u>\$3,751,843</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
Revenues				
Property and Other Taxes	\$493,728	\$776,530	\$629,686	\$0
Charges for Services	11,895	0	203,075	0
Licenses and Permits	71,425	0	0	0
Fines and Forfeitures	8,943	0	0	0
Intergovernmental	255,779	98,886	82,242	327,195
Interest	95,568	0	0	7,700
Contributions and Donations	0	0	1,550	0
Other	0	7,004	6,090	149
<i>Total Revenues</i>	<u>937,338</u>	<u>882,420</u>	<u>922,643</u>	<u>335,044</u>
Expenditures				
Current:				
General Government	822,333	0	0	0
Security of Persons and Property	33,762	778,008	951,311	0
Public Health Services	26,343	0	0	0
Leisure Time Activities	25,625	0	0	0
Community Environment	36,402	0	0	0
Transportation	0	0	0	306,043
Basic Utility Services	188,769	0	0	0
Debt Service:				
Principal Retirement	24,761	10,483	0	0
Interest and Fiscal Charges	0	1,430	0	0
<i>Total Expenditures</i>	<u>1,157,995</u>	<u>789,921</u>	<u>951,311</u>	<u>306,043</u>
<i>Net Change in Fund Balance</i>	(220,657)	92,499	(28,668)	29,001
<i>Fund Balances Beginning of Year</i>	<u>496,811</u>	<u>240,132</u>	<u>159,553</u>	<u>126,100</u>
<i>Fund Balances End of Year</i>	<u>\$276,154</u>	<u>\$332,631</u>	<u>\$130,885</u>	<u>\$155,101</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, 2006*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$189,946)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$1,899,944	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 outlays exceeded depreciation in the current period.	
2,995	217,965	Capital Outlay	618,853
0	71,425	Depreciation	(218,149)
205	9,148		
144,124	908,226	Total	400,704
405	103,673	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	1,550	Property and Other Taxes	764
0	13,243	Intergovernmental	(40,650)
147,729	3,225,174	Total	(39,886)
		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.	50,483
666	822,999	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	527
106,015	1,869,096	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.	(20,469)
0	26,343		
17,182	42,807	<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$201,413</u></u>
0	36,402		
67,898	373,941		
0	188,769		
15,239	50,483		
2,850	4,280		
209,850	3,415,120		
(62,121)	(189,946)		
130,538	1,153,134		
\$68,417	\$963,188		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$494,216	\$489,536	\$501,292	\$11,756
Charges for Services	12,115	12,000	11,895	(105)
Licenses and Permits	85,712	84,900	71,425	(13,475)
Fines and Forfeitures	7,067	7,000	8,706	1,706
Intergovernmental	275,645	273,035	239,069	(33,966)
Interest	75,717	75,000	93,204	18,204
<i>Total Revenues</i>	950,472	941,471	925,591	(15,880)
Expenditures				
Current:				
General Government	989,515	955,714	814,695	141,019
Security of Persons and Property	28,000	28,000	25,271	2,729
Public Health Services	26,500	26,500	26,343	157
Leisure Time Activities	58,748	58,748	25,607	33,141
Community Environment	48,335	48,335	36,394	11,941
Basic Utility Services	236,225	236,225	188,769	47,456
Debt Service:				
Principal Retirement	0	24,800	24,761	39
<i>Total Expenditures</i>	1,387,323	1,378,322	1,141,840	236,482
<i>Excess of Revenues Under Expenditures</i>	(436,851)	(436,851)	(216,249)	220,602
Other Financing Uses				
Advances Out	(30,000)	(30,000)	0	30,000
<i>Net Change in Fund Balance</i>	(466,851)	(466,851)	(216,249)	250,602
<i>Fund Balance Beginning of Year</i>	436,623	436,623	436,623	0
Prior Year Encumbrances Appropriated	30,228	30,228	30,228	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$250,602	\$250,602

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Levy Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$785,852	\$785,852	\$790,310	\$4,458
Intergovernmental	97,500	97,500	85,106	(12,394)
Contributions and Donations	100	100	0	(100)
Other	5,900	5,900	7,004	1,104
<i>Total Revenues</i>	889,352	889,352	882,420	(6,932)
Expenditures				
Current:				
Security of Persons and Property	1,157,383	1,157,383	778,131	379,252
<i>Net Change in Fund Balance</i>	(268,031)	(268,031)	104,289	372,320
<i>Fund Balance Beginning of Year</i>	261,948	261,948	261,948	0
Prior Year Encumbrances Appropriated	6,083	6,083	6,083	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$372,320	\$372,320

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$637,397	\$637,397	\$641,330	\$3,933
Charges for Services	189,500	189,500	209,737	20,237
Intergovernmental	79,500	79,500	70,598	(8,902)
Contributions and Donations	2,000	2,000	1,550	(450)
Other	6,000	6,000	6,090	90
<i>Total Revenues</i>	914,397	914,397	929,305	14,908
Expenditures				
Current:				
Security of Persons and Property	1,077,910	1,077,910	947,042	130,868
<i>Net Change in Fund Balance</i>	(163,513)	(163,513)	(17,737)	145,776
<i>Fund Balance Beginning of Year</i>	158,625	158,625	158,625	0
Prior Year Encumbrances Appropriated	4,888	4,888	4,888	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$145,776</u>	<u>\$145,776</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
*Statement of Revenues, Expenditures and Changes
 In Fund Balance - Budget (Non-GAAP Basis) and Actual
 Street Construction, Maintenance and Repair Fund
 For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$257,636	\$272,500	\$313,464	\$40,964
Interest	2,364	2,500	7,700	5,200
Other	0	0	149	149
<i>Total Revenues</i>	260,000	275,000	321,313	46,313
Expenditures				
Current:				
Transportation	379,437	394,437	306,653	87,784
<i>Net Change in Fund Balance</i>	(119,437)	(119,437)	14,660	134,097
<i>Fund Balance Beginning of Year</i>	119,368	119,368	119,368	0
Prior Year Encumbrances Appropriated	69	69	69	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$134,097</u>	<u>\$134,097</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2006

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$274,386	\$535,770	\$810,156
Accounts Receivable	142,742	255,528	398,270
Accrued Interest Receivable	0	4,490	4,490
Prepaid Items	3,608	3,608	7,216
Interfund Receivable	0	99,000	99,000
<i>Total Current Assets</i>	<u>420,736</u>	<u>898,396</u>	<u>1,319,132</u>
<i>Noncurrent Assets:</i>			
Interfund Receivable	0	99,000	99,000
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	3,366,640	5,476,490	8,843,130
<i>Total Noncurrent Assets</i>	<u>3,411,040</u>	<u>5,576,177</u>	<u>8,987,217</u>
<i>Total Assets</i>	<u>3,831,776</u>	<u>6,474,573</u>	<u>10,306,349</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	82,205	2,624	84,829
Accrued Wages	1,357	1,250	2,607
Intergovernmental Payable	12,123	42,890	55,013
Interfund Payable	99,000	0	99,000
Compensated Absences Payable	11,786	12,120	23,906
Accrued Interest Payable	4,490	0	4,490
OPWC Loans Payable	17,634	33,894	51,528
<i>Total Current Liabilities</i>	<u>228,595</u>	<u>92,778</u>	<u>321,373</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	19,066	10,114	29,180
Interfund Payable	99,000	0	99,000
OPWC Loans Payable	176,344	241,238	417,582
<i>Total Long-Term Liabilities</i>	<u>294,410</u>	<u>251,352</u>	<u>545,762</u>
<i>Total Liabilities</i>	<u>523,005</u>	<u>344,130</u>	<u>867,135</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,217,062	5,202,045	8,419,107
Unrestricted	91,709	928,398	1,020,107
<i>Total Net Assets</i>	<u>\$3,308,771</u>	<u>\$6,130,443</u>	<u>\$9,439,214</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, 2006*

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$533,150	\$1,009,711	\$1,542,861
Tap-In Fees	10,724	21,285	32,009
Other	5,052	487	5,539
<i>Total Operating Revenues</i>	<u>548,926</u>	<u>1,031,483</u>	<u>1,580,409</u>
Operating Expenses			
Personal Services	247,903	201,514	449,417
Materials and Supplies	54,542	61,046	115,588
Contractual Services	163,027	776,188	939,215
Depreciation	109,305	177,788	287,093
<i>Total Operating Expenses</i>	<u>574,777</u>	<u>1,216,536</u>	<u>1,791,313</u>
<i>Operating Loss</i>	<u>(25,851)</u>	<u>(185,053)</u>	<u>(210,904)</u>
Non-Operating Revenues (Expenses)			
Interest	0	4,490	4,490
Interest and Fiscal Charges	(4,490)	0	(4,490)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(4,490)</u>	<u>4,490</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>(30,341)</u>	<u>(180,563)</u>	<u>(210,904)</u>
<i>Net Assets Beginning of Year</i>	<u>3,339,112</u>	<u>6,311,006</u>	<u>9,650,118</u>
<i>Net Assets End of Year</i>	<u>\$3,308,771</u>	<u>\$6,130,443</u>	<u>\$9,439,214</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, 2006

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$544,943	\$1,010,677	\$1,555,620
Tap In Fees	10,724	21,285	32,009
Other Operating Revenues	5,052	487	5,539
Cash Payments to Suppliers for Materials and Supplies	(53,229)	(27,767)	(80,996)
Cash Payments for Employee Services and Benefits	(255,191)	(207,736)	(462,927)
Cash Payments for Contractual Services	(144,476)	(918,708)	(1,063,184)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>107,823</u>	<u>(121,762)</u>	<u>(13,939)</u>
Cash Flows from Noncapital Financing Activities			
Financing Activities			
Proceeds from Interfund Loan	198,000	0	198,000
Advances Out	0	(198,000)	(198,000)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>198,000</u>	<u>(198,000)</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(58,184)	(178,628)	(236,812)
Principal Paid on OPWC Loans	(17,634)	(33,894)	(51,528)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(75,818)</u>	<u>(212,522)</u>	<u>(288,340)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	230,005	(532,284)	(302,279)
<i>Cash and Cash Equivalents Beginning of Year</i>	44,381	1,068,054	1,112,435
<i>Cash and Cash Equivalents End of Year</i>	<u>\$274,386</u>	<u>\$535,770</u>	<u>\$810,156</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities			
Operating Loss	(\$25,851)	(\$185,053)	(\$210,904)
Adjustments:			
Depreciation	109,305	177,788	287,093
(Increase) Decrease in Assets:			
Accounts Receivable	(57,342)	4,744	(52,598)
Prepaid Items	279	279	558
Increase (Decrease) in Liabilities:			
Accounts Payable	75,240	(54,748)	20,492
Contracts Payable	0	(82,441)	(82,441)
Accrued Wages	58	170	228
Compensated Absences Payable	2,857	2,051	4,908
Intergovernmental Payable	3,277	15,448	18,725
<i>Total Adjustments</i>	<u>133,674</u>	<u>63,291</u>	<u>196,965</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$107,823</u>	<u>(\$121,762)</u>	<u>(\$13,939)</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 Regional Council of Governments 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.

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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.

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Street Construction, Maintenance and Repair Fund The street construction, maintenance and repair special revenue fund is used to account for the portion of gasoline tax and motor vehicle registration fees designated for maintenance and repair of dedicated streets within the City.

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.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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, 2006, but which were levied to finance 2007 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.

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. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

During 2006, 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, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$95,568 which includes \$79,736 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, 2006, 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. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital 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:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

The City's infrastructure consists of roads, storm sewers, sidewalks, curbs and water and sewer lines and includes infrastructure acquired prior to December 31, 1980.

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

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. The City records a liability for accumulated unused sick leave for all employees after ten years of service.

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.

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. Capital leases are recognized as a liability on the governmental fund financial statements when due.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

K. 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.

L. 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 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 restricted net assets of \$810,873, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for recreational activities and law enforcement education.

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

M. 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.

N. 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.

O. 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.

P. 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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 funds (except the general fund) and within departments within the general fund 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 and final 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

For fiscal year 2006, the City has implemented GASB Statement No. 47, "Accounting for Termination Benefits". GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the City.

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).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received and not reported by the City on the operating statements (budget), but reported on the GAAP basis operating statements.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 Balances			
	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
GAAP Basis	(\$220,657)	\$92,499	(\$28,668)	\$29,001
Net Adjustments for				
Revenue Accruals	(9,441)	0	6,662	(13,731)
Beginning Unrecorded Cash	5,424	0	0	0
Ending Unrecorded Cash	(7,730)	0	0	0
Net Adjustments for				
Expenditure Accruals	16,706	13,319	4,573	1,171
Encumbrances	(551)	(1,529)	(304)	(1,781)
Budget Basis	(\$216,249)	\$104,289	(\$17,737)	\$14,660

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 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 payment of principal and interest by the United States;

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,123,311 of the City's bank balance of \$1,236,311 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

At December 31, 2006, the City had an investment with STAROhio. The fair value of this investment was \$803,516 and had an average maturity of 35 days.

Credit Risk STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2006 was \$19.66 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$116,572,690
Tangible Personal Property	4,622,526
Public Utility Personal Property	2,260,570
Total	<u>\$123,455,786</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Real property taxes are payable annually or semi-annually. If paid annually, the 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-city taxpayers are due September 20. Single city taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Cortland. The County Auditor periodically remits to the City its portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general fund and the police pension and fire pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 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, 2006, 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 and are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Gasoline Tax	\$150,204
Homestead and Rollback	102,617
Auto License	52,239
Local Government	78,481
Estate Tax	15,040
COPS Grant	5,399
Total	\$403,980

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2006.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

B. Litigation

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

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06
Governmental Activities:				
Capital assets not being depreciated				
Land	\$6,476	\$11,100	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	969,672	0	0	969,672
Furniture, Fixtures and Equipment	579,742	0	0	579,742
Vehicles	984,361	27,568	0	1,011,929
Infrastructure:				
Roads	429,840	437,361	0	867,201
Storm Sewers	305,441	100,526	0	405,967
Sidewalks	49,678	0	0	49,678
Curbs	52,425	42,298	0	94,723
Total capital assets being depreciated	3,371,159	607,753	0	3,978,912
Accumulated depreciation				
Buildings and Improvements	(480,140)	(18,722)	0	(498,862)
Furniture, Fixtures and Equipment	(310,762)	(35,656)	0	(346,418)
Vehicles	(530,688)	(65,794)	0	(596,482)
Infrastructure:				
Roads	(69,490)	(86,722)	0	(156,212)
Storm Sewers	(12,050)	(8,119)	0	(20,169)
Sidewalks	(2,484)	(1,242)	0	(3,726)
Curbs	(2,097)	(1,894)	0	(3,991)
Total accumulated depreciation	(1,407,711)	(218,149) *	0	(1,625,860)
Capital assets being depreciated, net	1,963,448	389,604	0	2,353,052
Governmental activities capital assets, net	\$1,969,924	\$400,704	\$0	\$2,370,628

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06
Business type activities:				
Capital assets not being depreciated				
Land	\$687	\$44,400	\$0	\$45,087
Capital assets being depreciated				
Furniture, Fixtures and Equipment	138,967	0	0	138,967
Vehicles	100,768	27,568	0	128,336
Infrastructure:				
Water Lines	5,277,973	0	0	5,277,973
Sewer Lines	8,647,036	164,844	0	8,811,880
Total capital assets being depreciated	14,164,744	192,412	0	14,357,156
Accumulated depreciation				
Furniture, Fixtures and Equipment	(88,057)	(9,264)	0	(97,321)
Vehicles	(75,994)	(9,639)	0	(85,633)
Infrastructure:				
Water Lines	(1,848,993)	(101,482)	0	(1,950,475)
Sewer Lines	(3,213,889)	(166,708)	0	(3,380,597)
Total accumulated depreciation	(5,226,933)	(287,093)	0	(5,514,026)
Capital assets being depreciated, net	8,937,811	(94,681)	0	8,843,130
Business type activities capital assets, net	\$8,938,498	(\$50,281)	\$0	\$8,888,217

* Depreciation expense was charged to governmental activities as follows:

General Government	\$26,406
Security of Persons and Property	79,596
Transportation	104,028
Basic Utility Services	8,119
Total	<u>\$218,149</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 10 - 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 2006, 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.

Note 11 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Changes in long-term obligations of the City during 2006 were as follows:

	Outstanding 12/31/2005	Additions	Reductions	Outstanding 12/31/2006	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
West Main Street	\$69,097	\$0	\$8,638	\$60,459	\$8,638
North High Street	211,612	0	17,634	193,978	17,634
South Mecca	239,929	0	25,256	214,673	25,256
<i>Total OPWC Loans</i>	520,638	0	51,528	469,110	51,528
Compensated Absences	48,178	17,345	12,437	53,086	23,906
<i>Total Business Type Activities</i>	<u>\$568,816</u>	<u>\$17,345</u>	<u>\$63,965</u>	<u>\$522,196</u>	<u>\$75,434</u>
Governmental Type Activities					
General Obligation Bond					
Municipal Building	\$40,000	\$0	\$40,000	\$0	\$0
Capital Leases	21,658	0	10,483	11,175	11,175
Compensated Absences	172,170	31,278	10,809	192,639	52,726
<i>Total Governmental Type Activities</i>	<u>\$233,828</u>	<u>\$31,278</u>	<u>\$61,292</u>	<u>\$203,814</u>	<u>\$63,901</u>

OPWC loans will be paid from water and sewer enterprise fund user service charges. The general obligation bond was paid from property taxes in the bond retirement fund. 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.

The City's overall legal debt margin was \$12,962,858 at December 31, 2006. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006, are as follows:

Business Type Activities

Year	OPWC Loans
	Principal
2007	\$51,528
2008	51,527
2009	51,527
2010	51,527
2011	51,527
2012-2016	193,840
2017	17,634
Total	<u>\$469,110</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 12 – Capital Leases

During 2005, the City entered into a lease agreement for two police vehicles. The City also had an existing lease for a police vehicle. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and have been recorded on the government-wide statements. The vehicles have been capitalized in the amount of \$53,096 the present value of the minimum lease payments at the inception of the lease. The book value of the capital assets as of December 31, 2006 was \$37,535. The capital lease will be paid in 2007 with a payment of \$11,175 in principal and \$738 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 13 - 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 payment of 60 days.

Note 14 - 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) 222-5601 or 800-222-7377.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 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. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 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, 2006, 2005, and 2004 were \$68,239, \$67,637 and \$63,196 respectively; 71.15 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$1,644 made by the City and \$1,080 made by the 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 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$88,145 and \$103,549 for the year ended December 31, 2006, \$86,853 and \$104,831 for the year ended December 31, 2005 and \$49,601 and \$64,869 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 70.00 percent has been contributed for 2006.

Note 15 - 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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$32,155. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and 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 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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors 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 2006 that were used to fund postemployment benefits were \$35,032 for police and \$33,438 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 16 - Jointly Governed Organizations

A. Eastgate Regional Council of Governments

The Eastgate Regional Council of Governments (ERCG) is a jointly governed organization that is committed to fostering cooperative regional efforts in the planning, programming and implementation of public sector activities. ERCG 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 ERCG is controlled by a general policy board which consists of a representative from each participant. Funding comes from each of the participants. For 2006, the City contributed \$7,325 to the Eastgate Regional Council of Governments. 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 that was created to ensure that the State, and the citizens residing in it, are prepared to respond to an emergency or disaster and to lead mitigation efforts against the effect of future disasters. 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 2006, 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.

Note 17 – Interfund Balances

At December 31, 2006, the City had an interfund receivable/payable between the general fund and the federal grants special revenue fund in the amount of \$5,399 which was the direct result of the timing of grant monies.

At December 31, 2006, the water enterprise fund has an interfund payable of \$198,000 from the sewer enterprise fund. The interfund loan is to be used to supplement the fund for 2006 while the City implements improvements to the water system. Principal requirements to retire the interfund loan outstanding at December 31, 2006 are as follows:

Year	Principal	Interest
2007	\$99,000	\$11,880
2008	99,000	5,940
Total	\$198,000	\$17,820

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 18 – Pending Litigation

The City is a defendant in a wrongful death lawsuit. The lawsuit seeks an undetermined amount of damages. The City has an insurance policy in place for this type of claim and it is the opinion of the City's management that the case could end up settling for an amount which would be covered by the City's insurance policy.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the City Council
City of Cortland, Ohio

We have audited the 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 years ended December 31, 2005 and 2006, which collectively comprise the City of Cortland's basic financial statements and have issued our report thereon dated October 16, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cortland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cortland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cortland's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Cortland's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Cortland's financial statements that is more than inconsequential will not be prevented or detected by the City of Cortland's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Cortland's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

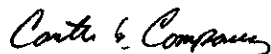
Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Cortland, Ohio, in a separate letter dated October 16, 2007.

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

CANTER & COMPANY



Youngstown, Ohio
October 16, 2007



Mary Taylor, CPA
Auditor of State

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
DECEMBER 27, 2007**