



**City of Cortland  
Trumbull County, Ohio**

**Regular Audit  
For the Years Ended December 31, 2007 & 2008**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
City of Cortland  
400 N. High St.  
Cortland, Ohio 44410

We have reviewed the *Independent Auditor's Report* of the City of Cortland, Trumbull County, prepared by Canter & Company, for the audit period January 1, 2007 through December 31, 2008. 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

September 1, 2009

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**City of Cortland, Ohio**  
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*For the Years Ended December 31, 2007 & 2008*  
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20 E. McKinley Way, Suite 4  
Poland, Ohio 44514  
Ph: 330.707.9035  
Fax: 888.516.1186

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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, 2007 and 2008, 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, 2007 and 2008, 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 June 25, 2009, 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 49 through 56 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  
June 25, 2009

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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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, 2007. 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 fourth publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City of Cortland exceeded liabilities by \$14,398,097 at December 31, 2007.
- Total net assets increased by \$1,436,509. Governmental activities accounted for an \$801,660 increase, while business-type activities accounted for a \$634,849 increase.
- Total capital assets increased \$948,002, or 8.42 percent from 2006. Governmental capital assets increased \$354,125 while business-type capital assets increased \$593,877.
- The City retired the remaining \$11,175 in governmental-type capital leases outstanding during 2007. The City also had business-type OPWC loans outstanding at December 31, 2007 in the amount of \$738,260, as compared to \$469,110 at December 31, 2006.
- Total liabilities increased \$268,323. Governmental activities liabilities increased \$105,953 and business-type activities liabilities increased \$162,370.

***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 2007?" 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 2007 compared to 2006.

**Table 1**  
*Net Assets*

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and Other Assets	\$4,299,932	\$3,746,444	\$1,423,474	\$1,220,132	\$5,723,406	\$4,966,576
Capital Assets, Net	2,724,753	2,370,628	9,482,094	8,888,217	12,206,847	11,258,845
<b>Total Assets</b>	<b>7,024,685</b>	<b>6,117,072</b>	<b>10,905,568</b>	<b>10,108,349</b>	<b>17,930,253</b>	<b>16,225,421</b>
<b>Liabilities</b>						
Current Liabilities	2,468,230	2,390,884	40,378	146,939	2,508,608	2,537,823
Long-Term Liabilities						
Due Within One Year	29,381	63,901	79,167	75,434	108,548	139,335
Due in More Than One Year	203,040	139,913	711,960	446,762	915,000	586,675
<b>Total Liabilities</b>	<b>2,700,651</b>	<b>2,594,698</b>	<b>831,505</b>	<b>669,135</b>	<b>3,532,156</b>	<b>3,263,833</b>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	2,724,753	2,359,453	8,743,834	8,419,107	11,468,587	10,778,560
Restricted for:						
Capital Projects	15,993	0	0	0	15,993	0
Police	292,754	291,949	0	0	292,754	291,949
Fire	335,500	135,460	0	0	335,500	135,460
Street Construction, Maintenance and Repair	364,359	274,133	0	0	364,359	274,133
Other Purposes	62,498	109,331	0	0	62,498	109,331
Unrestricted	528,177	352,048	1,330,229	1,020,107	1,858,406	1,372,155
<b>Total Net Assets</b>	<b>\$4,324,034</b>	<b>\$3,522,374</b>	<b>\$10,074,063</b>	<b>\$9,439,214</b>	<b>\$14,398,097</b>	<b>\$12,961,588</b>

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For the City of Cortland, total assets exceeded total liabilities by \$14,398,097 at the close of 2007. Of the total net assets, invested in capital assets, net of related debt made up \$11,468,587 or 80.27 percent.

Total assets of the City increased \$1,704,832 from 2006 due mainly to an increase in cash balances, property tax receivables and capital assets at December 31, 2007. The increase in City-wide liabilities of \$268,323 was due mainly to an increase in deferred revenue and long-term liabilities.

Governmental net assets increased \$801,660 during 2007 and business-type net assets increased \$634,849. 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 2007 compared to 2006.

**Table 2**  
*Change in Net Assets*

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$417,703	\$298,538	\$1,669,620	\$1,574,870	\$2,087,323	\$1,873,408
Operating Grants and Contributions	434,231	423,773	0	0	434,231	423,773
Capital Grants	309,614	17,182	0	0	309,614	17,182
Total Program Revenues	<u>1,161,548</u>	<u>739,493</u>	<u>1,669,620</u>	<u>1,574,870</u>	<u>2,831,168</u>	<u>2,314,363</u>
General Revenues						
Property Taxes	2,212,969	1,900,708	0	0	2,212,969	1,900,708
Grants and Entitlements	583,195	428,171	0	0	583,195	428,171
Investment Earnings	110,181	103,673	9,635	4,490	119,816	108,163
Other	6,637	13,243	16,776	5,539	23,413	18,782
Total General Revenues	<u>2,912,982</u>	<u>2,445,795</u>	<u>26,411</u>	<u>10,029</u>	<u>2,939,393</u>	<u>2,455,824</u>
<i>Total Revenues</i>	<u>\$4,074,530</u>	<u>\$3,185,288</u>	<u>\$1,696,031</u>	<u>\$1,584,899</u>	<u>\$5,770,561</u>	<u>\$4,770,187</u>

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**Table 2 (continued)**  
*Change in Net Assets*

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
<b>Program Expenses</b>						
General Government	\$748,229	\$742,482	\$0	\$0	748,229	742,482
Security of Persons and Property	2,058,797	1,949,577	0	0	2,058,797	1,949,577
Public Health and Welfare	12,576	26,343	0	0	12,576	26,343
Leisure Time Activities	22,101	25,625	0	0	22,101	25,625
Community Environment	57,157	36,402	0	0	57,157	36,402
Transportation	358,337	103,331	0	0	358,337	103,331
Basic Utility Services	15,242	96,362	0	0	15,242	96,362
Interest and Fiscal Charges	431	3,753	0	0	431	3,753
Water	0	0	416,473	579,267	416,473	579,267
Sewer	0	0	644,709	1,216,536	644,709	1,216,536
Total Program Expenses	<u>3,272,870</u>	<u>2,983,875</u>	<u>1,061,182</u>	<u>1,795,803</u>	<u>4,334,052</u>	<u>4,779,678</u>
Increase (Decrease) in Net Assets	801,660	201,413	634,849	(210,904)	1,436,509	(9,491)
Net Assets Beginning 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>
Net Assets End of Year	<u>\$4,324,034</u>	<u>\$3,522,374</u>	<u>\$10,074,063</u>	<u>\$9,439,214</u>	<u>\$14,398,097</u>	<u>\$12,961,588</u>

***Governmental Activities***

Several sources fund our governmental activities with the City property tax being the largest component, contributing \$2,212,969, or 54.31 percent of the \$4,074,530 total governmental revenue. Program revenues are the next most important source of revenue generating \$1,161,548 or 28.51 percent. All other revenues including grants and entitlements, interest and other revenue accounted for \$700,013 or 17.18 percent of total governmental revenue.

Major expense activities are the operating costs associated with security of persons and property. Police and fire account for \$2,058,797 or 62.90 percent of the total governmental expenses. The City of Cortland continued to provide a wide range of community services and programs in 2007. Transportation at 10.95 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 2007, governmental expenses increased \$288,995 from 2006. The reason for this increase was additional contractual service expenses not occurring in 2006 and standard pay increases.

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. Net assets for 2007 increased \$634,849 due mainly to a decrease of \$577,563 in contractual services from 2006. The decrease in contractual services for 2007 was from reductions in equipment maintenance and outside professional services as more areas are performed by City employees.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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***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 2007 the City of Cortland reported combined governmental fund balances of \$1,373,034. Of this amount, \$1,327,465 constitutes unreserved balances, which is available for spending. The remaining \$45,569 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 \$4,008,541 and expenditures of \$3,598,695 leaving a difference of revenues over expenditures of \$409,846. 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 2007, had a balance of \$441,649, an increase of \$165,495 from 2006. This increase was due mainly to an increase in property tax, license and permits and intergovernmental revenue.

***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 2007, 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 2007 general fund revenues were budgeted at \$970,183, final budgeted revenues were \$1,018,183 and actual revenues amounted to \$1,047,301. The significant differences between the general fund's original and final amended budget is due to an increase in property taxes estimates. Original appropriations in the general fund were budgeted at \$1,221,336, final appropriations were \$1,269,336 and actual expenditures amounted to \$911,522.

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***Capital Assets and Debt Administration***

*Capital Assets*

Table 3 shows 2007 balances of capital assets as compared to 2006.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements	452,088	470,810	0	0	452,088	470,810
Furniture, Fixtures and Equipment	227,876	233,324	32,382	41,646	260,258	274,970
Vehicles	431,662	415,447	34,075	42,703	465,737	458,150
Infrastructure	1,595,551	1,233,471	9,370,550	8,758,781	10,966,101	9,992,252
<b>Total Capital Assets</b>	<b>\$2,724,753</b>	<b>\$2,370,628</b>	<b>\$9,482,094</b>	<b>\$8,888,217</b>	<b>\$12,206,847</b>	<b>\$11,258,845</b>

Total capital assets of the City of Cortland were \$12,206,847, an increase of \$948,002 from 2006. Capital assets for governmental activities increased \$354,125 due to the City building infrastructure in the way of new streets, storm sewers and curbs as well as purchasing vehicles in 2007. Capital assets for business-type activities were \$9,482,094, an increase of \$593,877 from 2006. This increase is due to the building of infrastructure in the way of sewer and water lines in 2007, 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, 2007, the City of Cortland had governmental long-term obligations of \$232,421 in compensated absences outstanding. At December 31, 2007 the City had \$791,127 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	
	2007	2006	2007	2006	2007	2006
OPWC Loans	\$0	\$0	\$738,260	\$469,110	\$738,260	\$469,110
Capital Leases	0	11,175	0	0	0	11,175
Compensated Absences	232,421	192,639	52,867	53,086	285,288	245,725
<b>Total</b>	<b>\$232,421</b>	<b>\$203,814</b>	<b>\$791,127</b>	<b>\$522,196</b>	<b>\$1,023,548</b>	<b>\$726,010</b>

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

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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 help update the City's infrastructure in 2007. 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 its 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 2007 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 old and dilapidating sewer lines 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](mailto:financedirector@cityofcortland.org).

**Basic Financial Statements**



**City of Cortland, Ohio**

*Statement of Net Assets*

*December 31, 2007*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,417,084	\$1,039,645	\$2,456,729
Accrued Interest Receivable	126	2,245	2,371
Accounts Receivable	75,762	373,094	448,856
Intergovernmental Receivable	429,053	0	429,053
Prepaid Items	27,826	8,490	36,316
Property Taxes Receivable	2,350,081	0	2,350,081
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	<u>2,707,177</u>	<u>9,437,007</u>	<u>12,144,184</u>
<i>Total Assets</i>	<u>7,024,685</u>	<u>10,905,568</u>	<u>17,930,253</u>
<b>Liabilities</b>			
Accounts Payable	50,009	2,552	52,561
Accrued Wages	18,822	3,806	22,628
Intergovernmental Payable	158,180	31,775	189,955
Accrued Interest Payable	0	2,245	2,245
Deferred Revenue	2,241,219	0	2,241,219
Long-Term Liabilities:			
Due Within One Year	29,381	79,167	108,548
Due In More Than One Year	<u>203,040</u>	<u>711,960</u>	<u>915,000</u>
<i>Total Liabilities</i>	<u>2,700,651</u>	<u>831,505</u>	<u>3,532,156</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,724,753	8,743,834	11,468,587
Restricted for:			
Capital Projects	15,993	0	15,993
Police	292,754	0	292,754
Fire	335,500	0	335,500
Street Construction, Maintenance and Repair	364,359	0	364,359
Other Purposes	62,498	0	62,498
Unrestricted	<u>528,177</u>	<u>1,330,229</u>	<u>1,858,406</u>
<i>Total Net Assets</i>	<u>\$4,324,034</u>	<u>\$10,074,063</u>	<u>\$14,398,097</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities:</b>				
General Government	\$748,229	\$108,016	\$0	\$0
Security of Persons and Property	2,058,797	289,382	48,605	0
Public Health and Welfare	12,576	5,283	0	0
Leisure Time Activities	22,101	3,204	0	0
Community Environment	57,157	9,608	0	0
Transportation	358,337	0	385,626	309,614
Basic Utility Services	15,242	2,210	0	0
Interest and Fiscal Charges	431	0	0	0
<i>Total Governmental Activities</i>	<u>3,272,870</u>	<u>417,703</u>	<u>434,231</u>	<u>309,614</u>
<b>Business-Type Activities:</b>				
Water	416,473	666,116	0	0
Sewer	644,709	1,003,504	0	0
<i>Total Business-Type Activities</i>	<u>1,061,182</u>	<u>1,669,620</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$4,334,052</u>	<u>\$2,087,323</u>	<u>\$434,231</u>	<u>\$309,614</u>

**General Revenues**

Property 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
(\$640,213)	\$0	(\$640,213)
(1,720,810)	0	(1,720,810)
(7,293)	0	(7,293)
(18,897)	0	(18,897)
(47,549)	0	(47,549)
336,903	0	336,903
(13,032)	0	(13,032)
(431)	0	(431)
(2,111,322)	0	(2,111,322)
0	249,643	249,643
0	358,795	358,795
0	608,438	608,438
(2,111,322)	608,438	(1,502,884)
510,178	0	510,178
806,878	0	806,878
895,913	0	895,913
583,195	0	583,195
110,181	9,635	119,816
6,637	16,776	23,413
2,912,982	26,411	2,939,393
801,660	634,849	1,436,509
3,522,374	9,439,214	12,961,588
<u>\$4,324,034</u>	<u>\$10,074,063</u>	<u>\$14,398,097</u>

**City of Cortland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2007*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$449,495	\$378,971	\$304,209	\$233,383
Receivables:				
Taxes	559,018	848,722	942,341	0
Accounts	879	0	74,593	0
Accrued Interest	126	0	0	0
Intergovernmental Receivable	141,047	42,245	47,971	164,358
Prepaid Items	10,102	8,961	7,244	1,519
<i>Total Assets</i>	<u>\$1,160,667</u>	<u>\$1,278,899</u>	<u>\$1,376,358</u>	<u>\$399,260</u>
<b>Liabilities</b>				
Accounts Payable	\$37,813	\$505	\$4,373	\$1,979
Accrued Wages	2,459	7,104	7,762	1,334
Intergovernmental Payable	24,204	59,116	64,732	9,373
Deferred Revenue	654,542	890,967	990,312	136,121
<i>Total Liabilities</i>	<u>719,018</u>	<u>957,692</u>	<u>1,067,179</u>	<u>148,807</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	18,393	11,882	11,731	3,563
Unreserved:				
Undesignated, Reported in:				
General Fund	423,256	0	0	0
Special Revenue Funds	0	309,325	297,448	246,890
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances</i>	<u>441,649</u>	<u>321,207</u>	<u>309,179</u>	<u>250,453</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,160,667</u>	<u>\$1,278,899</u>	<u>\$1,376,358</u>	<u>\$399,260</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, 2007*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	<b>\$1,373,034</b>
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$51,026	\$1,417,084	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,724,753
0	2,350,081		
290	75,762		
0	126	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
33,432	429,053	Property and Other Taxes	108,862
0	27,826	Intergovernmental	349,806
		Total	458,668
<u>\$84,748</u>	<u>\$4,299,932</u>		
		Long-term liabilities, such as compensated absences, are not due and payable in the current period and are therefore not reported in the funds.	(232,421)
\$5,339	\$50,009		
163	18,822		
755	158,180		
27,945	2,699,887		
		<i>Net Assets of Governmental Activities</i>	<u><u>\$4,324,034</u></u>
<u>34,202</u>	<u>2,926,898</u>		
0	45,569		
0	423,256		
34,553	888,216		
15,993	15,993		
<u>50,546</u>	<u>1,373,034</u>		
<u>\$84,748</u>	<u>\$4,299,932</u>		

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2007*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
<b>Revenues</b>				
Property Taxes	\$495,269	\$784,261	\$870,795	\$0
Charges for Services	11,419	0	282,969	0
Licenses and Permits	114,203	0	0	0
Fines and Forfeitures	5,541	0	0	0
Intergovernmental	343,866	109,886	118,402	328,247
Interest	99,961	0	0	9,998
Contributions and Donations	0	10,000	2,990	0
Other	0	3,602	2,844	191
<i>Total Revenues</i>	<u>1,070,259</u>	<u>907,749</u>	<u>1,278,000</u>	<u>338,436</u>
<b>Expenditures</b>				
Current:				
General Government	745,106	0	0	0
Security of Persons and Property	41,016	907,260	979,706	0
Public Health Services	36,442	0	0	0
Leisure Time Activities	22,101	0	0	0
Community Environment	44,857	0	0	0
Transportation	0	0	0	243,084
Basic Utility Services	15,242	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	11,175	0	0
Interest and Fiscal Charges	0	738	0	0
<i>Total Expenditures</i>	<u>904,764</u>	<u>919,173</u>	<u>979,706</u>	<u>243,084</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>165,495</u>	<u>(11,424)</u>	<u>298,294</u>	<u>95,352</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	0	(120,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>(120,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	165,495	(11,424)	178,294	95,352
<i>Fund Balances Beginning of Year</i>	<u>276,154</u>	<u>332,631</u>	<u>130,885</u>	<u>155,101</u>
<i>Fund Balances End of Year</i>	<u>\$441,649</u>	<u>\$321,207</u>	<u>\$309,179</u>	<u>\$250,453</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, 2007*

Other Governmental Funds	Total Governmental Funds		
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$409,846</b>
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$2,150,325	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.	
3,105	297,493	Capital Outlay	614,874
0	114,203	Depreciation	<u>(260,749)</u>
466	6,007		
410,304	1,310,705	Total	354,125
222	110,181	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	12,990	Property Taxes	62,644
0	6,637	Intergovernmental	<u>3,345</u>
414,097	4,008,541	Total	65,989
		Repayment capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	11,175
0	745,106	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	307
38,395	1,966,377	Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(39,782)</u>
7,389	43,831	<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$801,660</u></u>
0	22,101		
12,300	57,157		
80,263	323,347		
0	15,242		
413,621	413,621		
0	11,175		
0	738		
551,968	3,598,695		
(137,871)	409,846		
120,000	120,000		
0	(120,000)		
120,000	0		
(17,871)	409,846		
68,417	963,188		
\$50,546	\$1,373,034		

**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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$480,240	\$504,000	\$495,269	(\$8,731)
Charges for Services	10,958	11,500	11,419	(81)
Licenses and Permits	88,997	93,400	114,203	20,803
Fines and Forfeitures	7,623	8,000	5,756	(2,244)
Intergovernmental	291,844	306,283	319,782	13,499
Interest	90,521	95,000	100,872	5,872
<i>Total Revenues</i>	970,183	1,018,183	1,047,301	29,118
<b>Expenditures</b>				
Current:				
General Government	930,754	967,333	744,172	223,161
Security of Persons and Property	36,562	38,000	35,617	2,383
Public Health Services	35,600	37,000	36,442	558
Leisure Time Activities	41,472	43,100	22,144	20,956
Community Environment	53,454	55,553	50,330	5,223
Basic Utility Services	123,494	128,350	22,817	105,533
<i>Total Expenditures</i>	1,221,336	1,269,336	911,522	357,814
<i>Net Change in Fund Balance</i>	(251,153)	(251,153)	135,779	386,932
<i>Fund Balance Beginning of Year</i>	250,602	250,602	250,602	0
Prior Year Encumbrances Appropriated	551	551	551	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$386,932	\$386,932

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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$778,098	\$796,530	\$784,241	(\$12,289)
Intergovernmental	90,360	92,500	109,906	17,406
Contributions and Donations	9,769	10,000	10,000	0
Other	8,303	8,500	3,602	(4,898)
<i>Total Revenues</i>	886,530	907,530	907,749	219
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,260,379	1,281,379	915,014	366,365
<i>Net Change in Fund Balance</i>	(373,849)	(373,849)	(7,265)	366,584
<i>Fund Balance Beginning of Year</i>	372,320	372,320	372,320	0
Prior Year Encumbrances Appropriated	1,529	1,529	1,529	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$366,584</u>	<u>\$366,584</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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$882,886	\$897,586	\$870,795	(\$26,791)
Charges for Services	231,000	235,000	241,931	6,931
Intergovernmental	78,200	79,500	118,402	38,902
Contributions and Donations	2,000	2,000	2,990	990
Other	6,500	6,500	2,844	(3,656)
<i>Total Revenues</i>	1,200,586	1,220,586	1,236,962	16,376
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,226,666	1,246,666	974,937	271,729
<i>Excess of Revenues Over (Under) Expenditures</i>	(26,080)	(26,080)	262,025	288,105
<b>Other Financing Uses</b>				
Transfers Out	(120,000)	(120,000)	(120,000)	0
<i>Net Change in Fund Balance</i>	(146,080)	(146,080)	142,025	288,105
<i>Fund Balance Beginning of Year</i>	145,776	145,776	145,776	0
Prior Year Encumbrances Appropriated	304	304	304	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$288,105	\$288,105

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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$292,500	\$292,500	\$325,703	\$33,203
Interest	7,500	7,500	9,998	2,498
Other	0	0	191	191
<i>Total Revenues</i>	300,000	300,000	335,892	35,892
<b>Expenditures</b>				
Current:				
Transportation	435,878	435,878	243,929	191,949
<i>Net Change in Fund Balance</i>	(135,878)	(135,878)	91,963	227,841
<i>Fund Balance Beginning of Year</i>	134,097	134,097	134,097	0
Prior Year Encumbrances Appropriated	1,781	1,781	1,781	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$227,841</u>	<u>\$227,841</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Fund Net Assets*  
*Enterprise Funds*  
*December 31, 2007*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$222,292	\$817,353	\$1,039,645
Accounts Receivable	147,934	225,160	373,094
Accrued Interest Receivable	0	2,245	2,245
Prepaid Items	4,245	4,245	8,490
Interfund Receivable	0	103,498	103,498
<i>Total Current Assets</i>	<u>374,471</u>	<u>1,152,501</u>	<u>1,526,972</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	3,806,858	5,630,149	9,437,007
<i>Total Noncurrent Assets</i>	<u>3,851,258</u>	<u>5,630,836</u>	<u>9,482,094</u>
<i>Total Assets</i>	<u>4,225,729</u>	<u>6,783,337</u>	<u>11,009,066</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	1,748	804	2,552
Accrued Wages	1,936	1,870	3,806
Intergovernmental Payable	16,966	14,809	31,775
Interfund Payable	103,498	0	103,498
Compensated Absences Payable	5,599	5,595	11,194
Accrued Interest Payable	2,245	0	2,245
OPWC Loans Payable	34,079	33,894	67,973
<i>Total Current Liabilities</i>	<u>166,071</u>	<u>56,972</u>	<u>223,043</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	25,192	16,481	41,673
OPWC Loans Payable	462,943	207,344	670,287
<i>Total Long-Term Liabilities</i>	<u>488,135</u>	<u>223,825</u>	<u>711,960</u>
<i>Total Liabilities</i>	<u>654,206</u>	<u>280,797</u>	<u>935,003</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,354,236	5,389,598	8,743,834
Unrestricted	217,287	1,112,942	1,330,229
<i>Total Net Assets</i>	<u>\$3,571,523</u>	<u>\$6,502,540</u>	<u>\$10,074,063</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, 2007*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$613,877	\$977,484	\$1,591,361
Tap-In Fees	52,239	26,020	78,259
Other	13,109	3,667	16,776
<i>Total Operating Revenues</i>	<u>679,225</u>	<u>1,007,171</u>	<u>1,686,396</u>
<b>Operating Expenses</b>			
Personal Services	284,022	258,405	542,427
Materials and Supplies	291	3,643	3,934
Contractual Services	2,520	198,625	201,145
Depreciation	120,005	184,036	304,041
<i>Total Operating Expenses</i>	<u>406,838</u>	<u>644,709</u>	<u>1,051,547</u>
<i>Operating Income</i>	<u>272,387</u>	<u>362,462</u>	<u>634,849</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest	0	9,635	9,635
Interest and Fiscal Charges	(9,635)	0	(9,635)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(9,635)</u>	<u>9,635</u>	<u>0</u>
<i>Change in Net Assets</i>	262,752	372,097	634,849
<i>Net Assets Beginning of Year</i>	<u>3,308,771</u>	<u>6,130,443</u>	<u>9,439,214</u>
<i>Net Assets End of Year</i>	<u><u>\$3,571,523</u></u>	<u><u>\$6,502,540</u></u>	<u><u>\$10,074,063</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Funds*  
For the Year Ended December 31, 2007

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$533,612	\$1,006,636	\$1,540,248
Tap In Fees	52,239	26,020	78,259
Other Operating Revenues	13,109	3,667	16,776
Cash Payments to Suppliers for Materials and Supplies	(90)	(36,597)	(36,687)
Cash Payments for Employee Services and Benefits	(265,181)	(241,884)	(507,065)
Cash Payments for Contractual Services	(22,222)	(211,052)	(233,274)
<i>Net Cash Provided by Operating Activities</i>	<u>311,467</u>	<u>546,790</u>	<u>858,257</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
<b>Financing Activities</b>			
Interfund Activity - Loan	(110,880)	110,880	0
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition of Capital Assets	(231,323)	(337,695)	(569,018)
Principal Paid on OPWC Loans	(21,358)	(38,392)	(59,750)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(252,681)</u>	<u>(376,087)</u>	<u>(628,768)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(52,094)	281,583	229,489
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>274,386</u>	<u>535,770</u>	<u>810,156</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$222,292</u>	<u>\$817,353</u>	<u>\$1,039,645</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income	<u>\$272,387</u>	<u>\$362,462</u>	<u>\$634,849</u>
Adjustments:			
Depreciation	120,005	184,036	304,041
(Increase) Decrease in Assets:			
Accounts Receivable	(5,192)	30,368	25,176
Prepaid Items	(637)	(637)	(1,274)
Increase (Decrease) in Liabilities:			
Accounts Payable	(80,457)	(1,820)	(82,277)
Accrued Wages	579	620	1,199
Compensated Absences Payable	(61)	(158)	(219)
Intergovernmental Payable	4,843	(28,081)	(23,238)
<i>Total Adjustments</i>	<u>39,080</u>	<u>184,328</u>	<u>223,408</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$311,467</u>	<u>\$546,790</u>	<u>\$858,257</u>

**Noncash Capital Financing Activities**

During 2007, the Ohio Public Works Commission paid \$328,900 directly to contractors on behalf of the water enterprise fund.

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**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 15 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, 2007*

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***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. Indirect costs, which are those that cannot be specifically associated with a service, program, or department have been allocated to major functions in order to present a more accurate and complete picture of the cost of City services. 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, 2007*

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***Street Construction, Maintenance and Repair Fund*** The street construction, maintenance and repair special revenue fund is used to account for 92.5 percent of the Cities share as required by state statute of gasoline tax and motor vehicle registration fees. Expenditures of this fund are for street maintenance and construction.

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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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, 2007, but which were levied to finance 2008 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, 2007*

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During 2007, 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, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2007 amounted to \$99,961 which includes \$79,802 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, 2007, 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 enterprise 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:

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*Notes to the Basic Financial Statements*  
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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 and business type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business type activities, which are presented as interfund balances.

***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, 2007*

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***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 \$1,071,104, 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. For all funds, council appropriations are made to the fund, department and category level

**City of Cortland, Ohio**  
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*For the Year Ended December 31, 2007*

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(object – personal service) for each 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 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and the OP&F post-employment healthcare plans in the amount of \$8,865 and \$19,857, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

### **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

**City of Cortland, Ohio**  
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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	Street Construction, Maintenance and Repair
GAAP Basis	\$165,495	(\$11,424)	\$178,294	\$95,352
Net Adjustments for				
Revenue Accruals	(24,330)	0	(41,038)	(2,544)
Beginning Unrecorded Cash	7,730	0	0	0
Ending Unrecorded Cash	(6,358)	0	0	0
Net Adjustments for				
Expenditure Accruals	49,447	16,546	20,873	4,697
Encumbrances	(56,205)	(12,387)	(16,104)	(5,542)
Budget Basis	<u>\$135,779</u>	<u>(\$7,265)</u>	<u>\$142,025</u>	<u>\$91,963</u>

**Note 5 - Deposits and Investments**

State statutes classify monies held by the City into these categories.

Active monies are public monies necessary to meet current demands on the treasury. Active 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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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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 held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;
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);
7. The State Treasurer's investment pool (STAROhio); and
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



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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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 December 31, 2007, the carrying amount of all City deposits was \$1,656,632. At year end, \$1,577,730 of the City's bank balance of \$1,690,760 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, 2007, the City had an investment with STAROhio. The fair value of this investment was \$800,097 and had an average maturity of 41 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 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

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.

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. 2007 public utility property taxes which became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

**City of Cortland, Ohio**  
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2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments 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 by September 20.

The full tax rate for all City operations for the year ended December 31, 2007, was \$19.66 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$117,663,660
Other Real Estate	20,757,920
Tangible Personal Property	
Public Utility	1,503,760
General Tangible Personal Property	1,699,986
Total Assessed Values	\$141,625,326

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 and tangible personal property taxes and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund, the fire and police levy funds and the police and fire pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2007 operations and the collections 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 a revenue while the remainder of the receivable is deferred.

**Note 7 - Receivables**

Receivables at December 31, 2007, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services), intergovernmental receivables arising from grants, entitlements and shared revenues and interest on investments.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not 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, 2007*

	Amount
Gasoline Tax	\$145,051
Homestead and Rollback	118,556
Local Government	66,268
Auto License	52,739
Estate Tax	46,439
Total	\$429,053

**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, 2007.

**B. 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.

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07
Governmental Activities:				
Capital assets not being depreciated				
Land	\$17,576	\$0	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	969,672	0	0	969,672
Furniture, Fixtures and Equipment	579,742	30,985	0	610,727
Vehicles	1,011,929	90,000	(28,834)	1,073,095
Infrastructure:				
Roads	867,201	299,434	0	1,166,635
Storm Sewers	405,967	128,125	0	534,092
Sidewalks	49,678	0	0	49,678
Curbs	94,723	66,330	0	161,053
Total capital assets being depreciated	\$3,978,912	\$614,874	(\$28,834)	\$4,564,952

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2007

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07
<b>Governmental Activities (continued):</b>				
Accumulated depreciation				
Buildings and Improvements	(\$498,862)	(\$18,722)	\$0	(\$517,584)
Furniture, Fixtures and Equipment	(346,418)	(36,433)	0	(382,851)
Vehicles	(596,482)	(73,785)	28,834	(641,433)
Infrastructure:				
Roads	(156,212)	(116,664)	0	(272,876)
Storm Sewers	(20,169)	(10,682)	0	(30,851)
Sidewalks	(3,726)	(1,242)	0	(4,968)
Curbs	(3,991)	(3,221)	0	(7,212)
Total accumulated depreciation	<u>(1,625,860)</u>	<u>(260,749) *</u>	<u>28,834</u>	<u>(1,857,775)</u>
Capital assets being depreciated, net	<u>2,353,052</u>	<u>354,125</u>	<u>0</u>	<u>2,707,177</u>
Governmental activities capital assets, net	<u><u>\$2,370,628</u></u>	<u><u>\$354,125</u></u>	<u><u>\$0</u></u>	<u><u>\$2,724,753</u></u>
<b>Business type Activities:</b>				
Capital assets not being depreciated				
Land	<u>\$45,087</u>	<u>\$0</u>	<u>\$0</u>	<u>\$45,087</u>
Capital assets being depreciated				
Furniture, Fixtures and Equipment	138,967	0	0	138,967
Vehicles	128,336	0	0	128,336
Infrastructure:				
Water Lines	5,277,973	560,223	0	5,838,196
Sewer Lines	8,811,880	337,695	0	9,149,575
Total capital assets being depreciated	<u>14,357,156</u>	<u>897,918</u>	<u>0</u>	<u>15,255,074</u>
Accumulated depreciation				
Furniture, Fixtures and Equipment	(97,321)	(9,264)	0	(106,585)
Vehicles	(85,633)	(8,628)	0	(94,261)
Infrastructure:				
Water Lines	(1,950,475)	(112,687)	0	(2,063,162)
Sewer Lines	(3,380,597)	(173,462)	0	(3,554,059)
Total accumulated depreciation	<u>(5,514,026)</u>	<u>(304,041)</u>	<u>0</u>	<u>(5,818,067)</u>
Capital assets being depreciated, net	<u>8,843,130</u>	<u>593,877</u>	<u>0</u>	<u>9,437,007</u>
Business type Activities capital assets, net	<u><u>\$8,888,217</u></u>	<u><u>\$593,877</u></u>	<u><u>\$0</u></u>	<u><u>\$9,482,094</u></u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2007

\* Depreciation expense was charged to governmental activities as follows:

General Government	\$24,909
Security of Persons and Property	91,692
Transportation	133,466
Basic Utility Services	<u>10,682</u>
Total	<u><u>\$260,749</u></u>

**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 2007, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Trident Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	2,000,000
	Commercial Property	3,000,000
	Data Processing	23,700
	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
<b>Business-Type Activities</b>			
<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
Southern Waterline - 2007	0%	328,900	2027

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2007

Changes in long-term obligations of the City during 2007 were as follows:

	Outstanding 12/31/2006	Additions	Reductions	Outstanding 12/31/2007	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
West Main Street	\$60,459	\$0	\$8,638	\$51,821	\$8,638
North High Street	193,978	0	17,634	176,344	17,634
South Mecca	214,673	0	25,256	189,417	25,256
Southern Waterline	0	328,900	8,222	320,678	16,445
<i>Total OPWC Loans</i>	469,110	328,900	59,750	738,260	67,973
Compensated Absences	53,086	23,687	23,906	52,867	11,194
<i>Total Business Type Activities</i>	<u>\$522,196</u>	<u>\$352,587</u>	<u>\$83,656</u>	<u>\$791,127</u>	<u>\$79,167</u>
<b>Governmental Type Activities</b>					
Capital Leases	\$11,175	\$0	\$11,175	\$0	\$0
Compensated Absences	192,639	92,508	52,726	232,421	29,381
<i>Total Governmental Type Activities</i>	<u>\$203,814</u>	<u>\$92,508</u>	<u>\$63,901</u>	<u>\$232,421</u>	<u>\$29,381</u>

OPWC loans will be paid from water and sewer enterprise fund user service charges. 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 were paid from the police levy special revenue fund.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water enterprise fund. The debt is payable solely from net revenues and is payable through 2027. Annual principal payments on the debt issues are expected to require 7 percent of net revenues. The total principal remaining to be paid on the debt is \$497,022. Principal paid for the current year and total revenues were \$25,856 and \$349,329 respectively.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the sewer enterprise fund. The debt is payable solely from net revenues and is payable through 2015. Annual principal payments on the debt issues are expected to require 7 percent of net revenues. The total principal remaining to be paid on the debt is \$241,238. Principal paid for the current year and total revenues were \$33,894 and \$478,644 respectively.

The City's overall legal debt margin was \$14,870,659 at December 31, 2007. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007, are as follows:

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

*Business Type Activities*

Year	OPWC Loans Principal
2008	\$67,973
2009	67,972
2010	67,972
2011	67,972
2012	67,972
2013-2017	242,171
2018-2022	82,225
2023-2027	74,003
Total	\$738,260

**Note 12 - Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee of the fire department can be paid a maximum of 480 hours of accumulated, unused sick leave. Police department, service department and all other employees are paid at 50 percent, 100 percent and 100 percent respectively, of their accumulated, unused sick leave, with a maximum payment of 60 days.

**Note 13 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

Plan Description – 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension 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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent, and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$59,528, \$68,239, and \$67,637 respectively; 75 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were \$1,080 made by the City and \$1,644 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

Plan Description – 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 pension 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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$61,356 and \$79,234 for the year ended December 31, 2007, \$53,113 and \$70,112 for the year ended December 31, 2006, \$52,335 and \$70,979 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 67 percent has been contributed for police and 68 percent has been contributed for firefighters for 2007.

**Note 14 - Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care.



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which 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.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 through December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007, 2006, and 2005 were \$33,631, \$32,155 and \$28,330 respectively; 75 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&B Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding policy – OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$32,483 and \$31,005 for the year ended December 31, 2007, \$35,032 and \$33,438 for the year ended December 31, 2006, and \$34,519 and \$33,851 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 67 percent has been contributed for police and 68 percent has been contributed for firefighters for 2007.

## **Note 15 - 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 2007, the City contributed \$3,891 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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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 2007, 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 16 – Interfund Transfers and Balances**

***A. Interfund Transfers***

The fire levy special revenue fund transferred \$120,000 to the fire improvement capital projects fund to provide additional resources for current operations.

***B. Interfund Balances***

At December 31, 2007, the water enterprise fund has an interfund payable of \$99,000 and \$4,498 to the sewer enterprise fund. The \$4,498 interfund loan is to cover the principal paid by the sewer enterprise fund for an OPWC loan that is the obligation of the water enterprise fund. The \$99,000 interfund loan is to be used to supplement the fund for 2007 while the City implements improvements to the water system. The interfund loan of \$99,000 between the water and sewer enterprise funds represents manuscript notes which will be repaid during 2008 at an interest rate of 6 percent. Principal and interest requirements to retire the interfund loan during 2008 consist of payments of \$99,000 and \$5,490, respectively.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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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, 2008. 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 fifth publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City of Cortland exceeded liabilities by \$15,424,621 at December 31, 2008.
- Total net assets increased by \$1,026,524. Governmental activities net assets increased by \$1,328,330 which was offset by a decrease of \$301,806 in business-type activities net assets.
- Total capital assets increased \$847,855, or 6.95 percent from 2007. Governmental capital assets increased \$1,113,544 while business-type capital assets decreased \$265,689.
- The City had business-type OPWC loans outstanding at December 31, 2008 in the amount of \$670,287, as compared to \$738,260 at December 31, 2007.
- Total liabilities increased \$33,455. Governmental activities liabilities decreased \$4,874 and business-type activities liabilities increased \$38,329.

***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 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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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*.

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

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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 2008 compared to 2007.

**Table 1**  
*Net Assets*

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current and Other Assets	\$4,509,844	\$4,299,932	\$1,425,686	\$1,423,474	\$5,935,530	\$5,723,406
Capital Assets, Net	3,838,297	2,724,753	9,216,405	9,482,094	13,054,702	12,206,847
<b>Total Assets</b>	<b>8,348,141</b>	<b>7,024,685</b>	<b>10,642,091</b>	<b>10,905,568</b>	<b>18,990,232</b>	<b>17,930,253</b>
<b>Liabilities</b>						
Current Liabilities	2,444,207	2,468,230	146,025	40,378	2,590,232	2,508,608
Long-Term Liabilities						
Due Within One Year	22,675	29,381	72,079	79,167	94,754	108,548
Due in More Than One Year	228,895	203,040	651,730	711,960	880,625	915,000
<b>Total Liabilities</b>	<b>2,695,777</b>	<b>2,700,651</b>	<b>869,834</b>	<b>831,505</b>	<b>3,565,611</b>	<b>3,532,156</b>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	3,838,297	2,724,753	8,546,118	8,743,834	12,384,415	11,468,587
Restricted for:						
Capital Projects	95,993	15,993	0	0	95,993	15,993
Police	168,489	292,754	0	0	168,489	292,754
Fire	428,486	335,500	0	0	428,486	335,500
Street Construction, Maintenance and Repair	361,812	364,359	0	0	361,812	364,359
Other Purposes	86,690	62,498	0	0	86,690	62,498
Unrestricted	672,597	528,177	1,226,139	1,330,229	1,898,736	1,858,406
<b>Total Net Assets</b>	<b>\$5,652,364</b>	<b>\$4,324,034</b>	<b>\$9,772,257</b>	<b>\$10,074,063</b>	<b>\$15,424,621</b>	<b>\$14,398,097</b>

For the City of Cortland, total assets exceeded total liabilities by \$15,424,621 at the close of 2008. Of the total net assets, invested in capital assets, net of related debt made up \$12,384,415 or 80.29 percent.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

Total assets of the City increased \$1,059,979 from 2007 due mainly to an increase in cash balances and capital assets at December 31, 2008. The increase in City-wide liabilities of \$33,455 was due mainly to a increase in accounts payable.

Governmental net assets increased \$1,328,330 during 2008 and business-type net assets decreased \$301,806. 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 2008 compared to 2007.

**Table 2**  
*Change in Net Assets*

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$513,230	\$417,703	\$1,443,428	\$1,669,620	\$1,956,658	\$2,087,323
Operating Grants and Contributions	1,725,601	434,231	0	0	1,725,601	434,231
Capital Grants	120,782	309,614	0	0	120,782	309,614
Total Program Revenues	<u>2,359,613</u>	<u>1,161,548</u>	<u>1,443,428</u>	<u>1,669,620</u>	<u>3,803,041</u>	<u>2,831,168</u>
General Revenues						
Property Taxes	2,055,847	2,212,969	0	0	2,055,847	2,212,969
Grants and Entitlements	438,413	583,195	0	0	438,413	583,195
Investment Earnings	56,913	110,181	3,695	9,635	60,608	119,816
Gain on Sale of Capital Assets	12,500	0	0	0	12,500	0
Other	22,704	6,637	12,743	16,776	35,447	23,413
Total General Revenues	<u>2,586,377</u>	<u>2,912,982</u>	<u>16,438</u>	<u>26,411</u>	<u>2,602,815</u>	<u>2,939,393</u>
<i>Total Revenues</i>	<u>\$4,945,990</u>	<u>\$4,074,530</u>	<u>\$1,459,866</u>	<u>\$1,696,031</u>	<u>\$6,405,856</u>	<u>\$5,770,561</u>



**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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**Table 2 (continued)**  
*Change in Net Assets*

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Program Expenses</b>						
General Government	\$640,013	\$748,229	\$0	\$0	640,013	748,229
Security of Persons and Property	2,318,471	2,058,797	0	0	2,318,471	2,058,797
Public Health and Welfare	165,970	12,576	0	0	165,970	12,576
Leisure Time Activities	31,304	22,101	0	0	31,304	22,101
Community Environment	54,127	57,157	0	0	54,127	57,157
Transportation	282,549	358,337	0	0	282,549	358,337
Basic Utility Services	125,226	15,242	0	0	125,226	15,242
Interest and Fiscal Charges	0	431	0	0	0	431
Water	0	0	608,486	416,473	608,486	416,473
Sewer	0	0	1,153,186	644,709	1,153,186	644,709
<b>Total Program Expenses</b>	<b>3,617,660</b>	<b>3,272,870</b>	<b>1,761,672</b>	<b>1,061,182</b>	<b>5,379,332</b>	<b>4,334,052</b>
Increase (Decrease) in Net Assets	1,328,330	801,660	(301,806)	634,849	1,026,524	1,436,509
Net Assets Beginning of Year	4,324,034	3,522,374	10,074,063	9,439,214	14,398,097	12,961,588
Net Assets End of Year	<u>\$5,652,364</u>	<u>\$4,324,034</u>	<u>\$9,772,257</u>	<u>\$10,074,063</u>	<u>\$15,424,621</u>	<u>\$14,398,097</u>

***Governmental Activities***

Several sources fund our governmental activities with the City program revenues being the largest component, contributing \$2,359,613, or 47.7 percent of the \$4,945,990 total governmental revenue. Property taxes are the next most important source of revenue generating \$2,055,847 or 41.57 percent. All other revenues including grants and entitlements, gain on sale of capital assets, interest and other revenue accounted for \$530,530 or 10.73 percent of total governmental revenue.

Major expense activities are the operating costs associated with security of persons and property. Police and fire account for \$2,318,471 or 64.09 percent of the total governmental expenses. The City of Cortland continued to provide a wide range of community services and programs in 2008. Transportation at 7.81 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 2008, governmental expenses increased \$344,790 from 2007. The reason for this increase was additional contractual service expenses not occurring in 2007 and standard pay increases.

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. Net assets for 2008 decreased \$301,806 due mainly to an increase of \$589,086 in contractual services from 2007. The increase in contractual services for 2008 was from increases in equipment maintenance and the use of additional outside professional services then prior years.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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***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 60 and is accounted for using the modified accrual basis of accounting.

At the end of 2008, the City of Cortland reported combined governmental fund balances of \$1,520,540. Of this amount, \$1,516,185 constitutes unreserved balances, which is available for spending. The remaining \$4,355 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 \$4,847,061 and expenditures of \$4,712,055 leaving a difference of revenues over expenditures of \$135,006. 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 2008, had a balance of \$565,186, an increase of \$123,537 from 2007. This increase was due mainly to an increase in license and permits and intergovernmental revenue and a decrease in basic utility services expenditure.

***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 2008, 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 2008 general fund revenues were budgeted at \$961,508, final budgeted revenues were \$1,132,508 and actual revenues amounted to \$1,119,850. The significant differences between the general fund's original and final amended budget is due to an increase in property taxes and intergovernmental revenue estimates. Original appropriations in the general fund were budgeted at \$1,404,644, final appropriations were \$1,575,644 and actual expenditures amounted to \$1,006,428. The difference in actual expenditures and final appropriations was most significant in general government estimates.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

**Capital Assets and Debt Administration**

*Capital Assets*

Table 3 shows 2008 balances of capital assets as compared to 2007.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements	433,365	452,088	0	0	433,365	452,088
Furniture, Fixtures and Equipment	276,733	227,876	58,238	32,382	334,971	260,258
Vehicles	398,566	431,662	28,679	34,075	427,245	465,737
Infrastructure	2,712,057	1,595,551	9,084,401	9,370,550	11,796,458	10,966,101
<b>Total Capital Assets</b>	<b>\$3,838,297</b>	<b>\$2,724,753</b>	<b>\$9,216,405</b>	<b>\$9,482,094</b>	<b>\$13,054,702</b>	<b>\$12,206,847</b>

Total capital assets of the City of Cortland were \$13,054,702, an increase of \$847,855 from 2007. Capital assets for governmental activities increased \$1,113,544 due to the City building infrastructure in the way of new streets, storm sewers and curbs as well as purchasing equipment and vehicles in 2008. Capital assets for business-type activities were \$9,216,405, a decrease of \$265,689 from 2007. This decrease is due to another year of depreciation being taken on the assets in 2008, offset by the purchase of equipment and vehicles. Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

*Debt*

At December 31, 2008, the City of Cortland had governmental long-term obligations of \$251,570 in compensated absences outstanding. At December 31, 2008 the City had \$723,809 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	
	2008	2007	2008	2007	2008	2007
OPWC Loans	\$0	\$0	\$670,287	\$738,260	\$670,287	\$738,260
Capital Leases	0	0	0	0	0	0
Compensated Absences	251,570	232,421	53,522	52,867	305,092	285,288
<b>Total</b>	<b>\$251,570</b>	<b>\$232,421</b>	<b>\$723,809</b>	<b>\$791,127</b>	<b>\$975,379</b>	<b>\$1,023,548</b>

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 12 to the basic financial statements.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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**Current Financial Related Activities**

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 its 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 2008 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 old and dilapidating sewer lines 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](mailto:financedirector@cityofcortland.org).

**City of Cortland, Ohio**

*Statement of Net Assets*

*December 31, 2008*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,534,121	\$1,052,552	\$2,586,673
Accrued Interest Receivable	1,508	0	1,508
Accounts Receivable	143,590	365,302	508,892
Intergovernmental Receivable	470,699	0	470,699
Prepaid Items	26,167	7,832	33,999
Property Taxes Receivable	2,333,759	0	2,333,759
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	3,820,721	9,171,318	12,992,039
<i>Total Assets</i>	<u>8,348,141</u>	<u>10,642,091</u>	<u>18,990,232</u>
<b>Liabilities</b>			
Accounts Payable	21,965	110,716	132,681
Accrued Wages	30,598	6,550	37,148
Intergovernmental Payable	177,043	28,759	205,802
Deferred Revenue	2,214,601	0	2,214,601
Long-Term Liabilities:			
Due Within One Year	22,675	72,079	94,754
Due In More Than One Year	228,895	651,730	880,625
<i>Total Liabilities</i>	<u>2,695,777</u>	<u>869,834</u>	<u>3,565,611</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,838,297	8,546,118	12,384,415
Restricted for:			
Capital Projects	95,993	0	95,993
Police	168,489	0	168,489
Fire	428,486	0	428,486
Street Construction, Maintenance and Repair	361,812	0	361,812
Other Purposes	86,690	0	86,690
Unrestricted	672,597	1,226,139	1,898,736
<i>Total Net Assets</i>	<u>\$5,652,364</u>	<u>\$9,772,257</u>	<u>\$15,424,621</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2008

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities:</b>				
General Government	\$640,013	\$108,478	\$0	\$0
Security of Persons and Property	2,318,471	367,532	339,503	0
Public Health and Welfare	165,970	2,284	0	0
Leisure Time Activities	31,304	4,785	0	0
Community Environment	54,127	11,007	0	0
Transportation	282,549	0	1,386,098	120,782
Basic Utility Services	125,226	19,144	0	0
<i>Total Governmental Activities</i>	<u>3,617,660</u>	<u>513,230</u>	<u>1,725,601</u>	<u>120,782</u>
<b>Business-Type Activities:</b>				
Water	608,486	559,462	0	0
Sewer	1,153,186	883,966	0	0
<i>Total Business-Type Activities</i>	<u>1,761,672</u>	<u>1,443,428</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$5,379,332</u>	<u>\$1,956,658</u>	<u>\$1,725,601</u>	<u>\$120,782</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Police Levy

    Fire Levy

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*

*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
(\$531,535)	\$0	(\$531,535)
(1,611,436)	0	(1,611,436)
(163,686)	0	(163,686)
(26,519)	0	(26,519)
(43,120)	0	(43,120)
1,224,331	0	1,224,331
(106,082)	0	(106,082)
(1,258,047)	0	(1,258,047)
0	(49,024)	(49,024)
0	(269,220)	(269,220)
0	(318,244)	(318,244)
(1,258,047)	(318,244)	(1,576,291)
466,341	0	466,341
750,750	0	750,750
838,756	0	838,756
438,413	0	438,413
56,913	3,695	60,608
12,500	0	12,500
22,704	12,743	35,447
2,586,377	16,438	2,602,815
1,328,330	(301,806)	1,026,524
4,324,034	10,074,063	14,398,097
\$5,652,364	\$9,772,257	\$15,424,621

**City of Cortland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2008*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$579,773	\$261,050	\$349,117	\$197,666
Receivables:				
Taxes	557,267	842,427	934,065	0
Accounts	389	0	143,051	0
Accrued Interest	1,508	0	0	0
Intergovernmental Receivable	127,617	53,148	59,169	193,501
Prepaid Items	9,904	7,921	6,960	1,382
<i>Total Assets</i>	<u>\$1,276,458</u>	<u>\$1,164,546</u>	<u>\$1,492,362</u>	<u>\$392,549</u>
<b>Liabilities</b>				
Accounts Payable	\$9,385	\$7,388	\$4,599	\$593
Accrued Wages	4,432	11,580	12,983	1,314
Intergovernmental Payable	25,352	66,098	78,221	6,415
Deferred Revenue	672,103	895,575	993,234	167,201
<i>Total Liabilities</i>	<u>711,272</u>	<u>980,641</u>	<u>1,089,037</u>	<u>175,523</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	5	36	5	4,309
Unreserved:				
Undesignated, Reported in:				
General Fund	565,181	0	0	0
Special Revenue Funds	0	183,869	403,320	212,717
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances</i>	<u>565,186</u>	<u>183,905</u>	<u>403,325</u>	<u>217,026</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,276,458</u>	<u>\$1,164,546</u>	<u>\$1,492,362</u>	<u>\$392,549</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, 2008*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	<b>\$1,520,540</b>
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$146,515	\$1,534,121	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,838,297
0	2,333,759		
150	143,590	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
0	1,508		
37,264	470,699	Property Taxes	119,158
0	26,167	Intergovernmental	425,939
		Total	545,097
<u>\$183,929</u>	<u>\$4,509,844</u>		
		Long-term liabilities, such as compensated absences, are not due and payable in the current period and are therefore not reported in the funds.	<u>(251,570)</u>
\$0	\$21,965		
289	30,598		
957	177,043		
31,585	2,759,698	<i>Net Assets of Governmental Activities</i>	<u>\$5,652,364</u>
<u>32,831</u>	<u>2,989,304</u>		
0	4,355		
0	565,181		
55,105	855,011		
95,993	95,993		
<u>151,098</u>	<u>1,520,540</u>		
<u>\$183,929</u>	<u>\$4,509,844</u>		

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2008*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
<b>Revenues</b>				
Property Taxes	\$463,783	\$747,052	\$834,716	\$0
Charges for Services	13,653	0	360,497	0
Licenses and Permits	130,909	0	0	0
Fines and Forfeitures	4,263	0	0	0
Intergovernmental	419,101	140,541	147,276	1,286,865
Interest	51,898	0	0	4,834
Contributions and Donations	0	0	135	0
Other	0	16,295	5,886	523
<i>Total Revenues</i>	<u>1,083,607</u>	<u>903,888</u>	<u>1,348,510</u>	<u>1,292,222</u>
<b>Expenditures</b>				
Current:				
General Government	708,636	0	0	0
Security of Persons and Property	44,257	1,041,190	1,174,364	0
Public Health Services	12,338	0	0	0
Leisure Time Activities	31,304	0	0	0
Community Environment	50,809	0	0	0
Transportation	0	0	0	1,325,649
Basic Utility Services	125,226	0	0	0
Capital Outlay	0	0	0	0
<i>Total Expenditures</i>	<u>972,570</u>	<u>1,041,190</u>	<u>1,174,364</u>	<u>1,325,649</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>111,037</u>	<u>(137,302)</u>	<u>174,146</u>	<u>(33,427)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	12,500	0	0	0
Transfers In	0	0	0	0
Transfers Out	0	0	(80,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>12,500</u>	<u>0</u>	<u>(80,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	123,537	(137,302)	94,146	(33,427)
<i>Fund Balances Beginning of Year</i>	<u>441,649</u>	<u>321,207</u>	<u>309,179</u>	<u>250,453</u>
<i>Fund Balances End of Year</i>	<u>\$565,186</u>	<u>\$183,905</u>	<u>\$403,325</u>	<u>\$217,026</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, 2008*

Other Governmental Funds	Total Governmental Funds		
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$147,506</b>
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$2,045,551	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.	
3,240	377,390	Capital Outlay	1,501,851
0	130,909	Depreciation	<u>(388,307)</u>
668	4,931		
214,745	2,208,528	Total	1,113,544
181	56,913	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	135	Property Taxes	10,296
0	22,704	Intergovernmental	<u>76,133</u>
218,834	4,847,061	Total	86,429
		Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(19,149)</u>
		<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,328,330</u></u>
0	708,636		
29,541	2,289,352		
0	12,338		
0	31,304		
3,318	54,127		
44,641	1,370,290		
0	125,226		
120,782	120,782		
198,282	4,712,055		
20,552	135,006		
0	12,500		
80,000	80,000		
0	(80,000)		
80,000	12,500		
100,552	147,506		
50,546	1,373,034		
<u>\$151,098</u>	<u>\$1,520,540</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, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$428,800	\$505,060	\$463,783	(\$41,277)
Charges for Services	10,782	12,700	13,653	953
Licenses and Permits	103,409	121,800	130,909	9,109
Fines and Forfeitures	5,094	6,000	4,253	(1,747)
Intergovernmental	349,068	411,148	451,843	40,695
Interest	64,355	75,800	55,409	(20,391)
<i>Total Revenues</i>	<u>961,508</u>	<u>1,132,508</u>	<u>1,119,850</u>	<u>(12,658)</u>
<b>Expenditures</b>				
Current:				
General Government	1,099,444	1,232,844	736,737	496,107
Security of Persons and Property	44,516	50,000	47,119	2,881
Public Health Services	17,806	20,000	12,338	7,662
Leisure Time Activities	48,256	54,200	32,894	21,306
Community Environment	58,404	65,600	52,114	13,486
Basic Utility Services	136,218	153,000	125,226	27,774
<i>Total Expenditures</i>	<u>1,404,644</u>	<u>1,575,644</u>	<u>1,006,428</u>	<u>569,216</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(443,136)	(443,136)	113,422	556,558
<b>Other Financing Sources</b>				
Sale of Capital Assets	<u>0</u>	<u>0</u>	<u>12,500</u>	<u>12,500</u>
<i>Net Change in Fund Balance</i>	(443,136)	(443,136)	125,922	569,058
<i>Fund Balance Beginning of Year</i>	386,932	386,932	386,932	0
Prior Year Encumbrances Appropriated	<u>56,205</u>	<u>56,205</u>	<u>56,205</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1</u>	<u>\$1</u>	<u>\$569,059</u>	<u>\$569,058</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, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$800,209	\$804,646	\$747,052	(\$57,594)
Intergovernmental	86,520	87,000	140,541	53,541
Contributions and Donations	4,972	5,000	0	(5,000)
Other	9,945	10,000	16,295	6,295
<i>Total Revenues</i>	901,646	906,646	903,888	(2,758)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,280,617	1,285,617	1,028,284	257,333
<i>Net Change in Fund Balance</i>	(378,971)	(378,971)	(124,396)	254,575
<i>Fund Balance Beginning of Year</i>	366,584	366,584	366,584	0
Prior Year Encumbrances Appropriated	12,387	12,387	12,387	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$254,575</u>	<u>\$254,575</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, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$893,219	\$893,219	\$834,716	(\$58,503)
Charges for Services	224,000	224,000	215,172	(8,828)
Intergovernmental	96,000	96,000	147,276	51,276
Contributions and Donations	1,000	1,000	135	(865)
Other	5,000	5,000	5,886	886
<i>Total Revenues</i>	1,219,219	1,219,219	1,203,185	(16,034)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,369,428	1,369,428	1,082,122	287,306
<i>Excess of Revenues Over (Under) Expenditures</i>	(150,209)	(150,209)	121,063	271,272
<b>Other Financing Uses</b>				
Transfers Out	(154,000)	(154,000)	(80,000)	74,000
<i>Net Change in Fund Balance</i>	(304,209)	(304,209)	41,063	345,272
<i>Fund Balance Beginning of Year</i>	288,105	288,105	288,105	0
Prior Year Encumbrances Appropriated	16,104	16,104	16,104	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$345,272	\$345,272

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, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$1,248,614	\$1,248,614	\$1,276,116	\$27,502
Interest	0	5,000	4,834	(166)
Other	0	0	523	523
<i>Total Revenues</i>	1,248,614	1,253,614	1,281,473	27,859
<b>Expenditures</b>				
Current:				
Transportation	1,481,996	1,486,996	1,321,845	165,151
<i>Net Change in Fund Balance</i>	(233,382)	(233,382)	(40,372)	193,010
<i>Fund Balance Beginning of Year</i>	227,841	227,841	227,841	0
Prior Year Encumbrances Appropriated	5,542	5,542	5,542	0
<i>Fund Balance End of Year</i>	<u>\$1</u>	<u>\$1</u>	<u>\$193,011</u>	<u>\$193,010</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Fund Net Assets*  
*Enterprise Funds*  
*December 31, 2008*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$153,889	\$898,663	\$1,052,552
Accounts Receivable	144,648	220,654	365,302
Prepaid Items	3,916	3,916	7,832
<i>Total Current Assets</i>	<u>302,453</u>	<u>1,123,233</u>	<u>1,425,686</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	3,706,449	5,464,869	9,171,318
<i>Total Noncurrent Assets</i>	<u>3,750,849</u>	<u>5,465,556</u>	<u>9,216,405</u>
<i>Total Assets</i>	<u>4,053,302</u>	<u>6,588,789</u>	<u>10,642,091</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	7,725	102,991	110,716
Accrued Wages	3,156	3,394	6,550
Intergovernmental Payable	14,423	14,336	28,759
Compensated Absences Payable	2,052	2,054	4,106
OPWC Loans Payable	34,079	33,894	67,973
<i>Total Current Liabilities</i>	<u>61,435</u>	<u>156,669</u>	<u>218,104</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	28,553	20,863	49,416
OPWC Loans Payable	428,864	173,450	602,314
<i>Total Long-Term Liabilities</i>	<u>457,417</u>	<u>194,313</u>	<u>651,730</u>
<i>Total Liabilities</i>	<u>518,852</u>	<u>350,982</u>	<u>869,834</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,287,906	5,258,212	8,546,118
Unrestricted	246,544	979,595	1,226,139
<i>Total Net Assets</i>	<u>\$3,534,450</u>	<u>\$6,237,807</u>	<u>\$9,772,257</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, 2008*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$555,382	\$880,006	\$1,435,388
Tap-In Fees	4,080	3,960	8,040
Other	11,951	792	12,743
<i>Total Operating Revenues</i>	<u>571,413</u>	<u>884,758</u>	<u>1,456,171</u>
<b>Operating Expenses</b>			
Personal Services	284,692	288,254	572,946
Materials and Supplies	51,224	37,933	89,157
Contractual Services	147,239	642,992	790,231
Depreciation	121,636	184,007	305,643
<i>Total Operating Expenses</i>	<u>604,791</u>	<u>1,153,186</u>	<u>1,757,977</u>
<i>Operating Loss</i>	<u>(33,378)</u>	<u>(268,428)</u>	<u>(301,806)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest	0	3,695	3,695
Interest and Fiscal Charges	(3,695)	0	(3,695)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(3,695)</u>	<u>3,695</u>	<u>0</u>
<i>Change in Net Assets</i>	(37,073)	(264,733)	(301,806)
<i>Net Assets Beginning of Year</i>	<u>3,571,523</u>	<u>6,502,540</u>	<u>10,074,063</u>
<i>Net Assets End of Year</i>	<u>\$3,534,450</u>	<u>\$6,237,807</u>	<u>\$9,772,257</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, 2008

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$558,668	\$889,010	\$1,447,678
Tap In Fees	4,080	3,960	8,040
Other Operating Revenues	11,951	792	12,743
Cash Payments to Suppliers for Materials and Supplies	(52,572)	(38,084)	(90,656)
Cash Payments for Employee Services and Benefits	(286,201)	(286,362)	(572,563)
Cash Payments for Contractual Services	(144,083)	(540,325)	(684,408)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>91,843</u>	<u>28,991</u>	<u>120,834</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
<b>Financing Activities</b>			
Interfund Activity - Loan	(99,000)	99,000	0
Interest Paid on Interfund Loan	(5,940)	5,940	0
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(104,940)</u>	<u>104,940</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition of Capital Assets	(21,227)	(18,727)	(39,954)
Principal Paid on OPWC Loans	(34,079)	(33,894)	(67,973)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(55,306)</u>	<u>(52,621)</u>	<u>(107,927)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(68,403)	81,310	12,907
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>222,292</u>	<u>817,353</u>	<u>1,039,645</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$153,889</u></u>	<u><u>\$898,663</u></u>	<u><u>\$1,052,552</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Loss	(\$33,378)	(\$268,428)	(\$301,806)
Adjustments:			
Depreciation	121,636	184,007	305,643
Decrease in Assets:			
Accounts Receivable	3,286	4,506	7,792
Interfund Receivable	0	4,498	4,498
Prepaid Items	329	329	658
Increase (Decrease) in Liabilities:			
Accounts Payable	5,977	102,187	108,164
Accrued Wages	1,220	1,524	2,744
Compensated Absences Payable	(186)	841	655
Interfund Payable	(4,498)	0	(4,498)
Intergovernmental Payable	(2,543)	(473)	(3,016)
<i>Total Adjustments</i>	<u>125,221</u>	<u>297,419</u>	<u>422,640</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$91,843</u></u>	<u><u>\$28,991</u></u>	<u><u>\$120,834</u></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, 2008*

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**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, 2008*

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***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. Indirect costs, which are those that cannot be specifically associated with a service, program, or department have been allocated to major functions in order to present a more accurate and complete picture of the cost of City services. 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, 2008*

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***Street Construction, Maintenance and Repair Fund*** The street construction, maintenance and repair special revenue fund is used to account for 92.5 percent of the Cities share as required by state statute of gasoline tax and motor vehicle registration fees. Expenditures of this fund are for street maintenance and construction.

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2008*

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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, 2008, but which were levied to finance 2009 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, 2008*

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During 2008, 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, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$51,898 which includes \$30,443 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, 2008, 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 enterprise 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**  
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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 and business type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business type activities, which are presented as interfund balances.

***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, 2008*

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***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 \$1,141,470, 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. For all funds, council appropriations are made to the fund, department and category level

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(object – personal service) for each 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 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations.” GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City’s financial statements.

### **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.

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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	\$123,537	(\$137,302)	\$94,146	(\$33,427)
Net Adjustments for				
Revenue Accruals	31,850	0	(145,325)	(10,749)
Beginning Unrecorded Cash	6,358	0	0	0
Ending Unrecorded Cash	(1,965)	0	0	0
Net Adjustments for				
Expenditure Accruals	(33,853)	12,942	92,247	8,113
Encumbrances	(5)	(36)	(5)	(4,309)
Budget Basis	<u>\$125,922</u>	<u>(\$124,396)</u>	<u>\$41,063</u>	<u>(\$40,372)</u>

**Note 5 - Deposits and Investments**

State statutes classify monies held by the City into these categories.

Active monies are public monies necessary to meet current demands on the treasury. Active 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 held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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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;
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);
7. The State Treasurer's investment pool (STAROhio); and
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 December 31, 2008, the carrying amount of all City deposits was \$786,565. At year end, \$364,332 of the City's bank balance of \$827,332 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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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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, 2008, the City had an investment with STAROhio. The fair value of this investment was \$1,800,108 and had an average maturity of 55 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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) is for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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.

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. 2008 public utility property taxes which became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments 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 by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroad. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2008-2011, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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The full tax rate for all City operations for the year ended December 31, 2008, was \$19.66 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$119,388,440
Other Real Estate	21,122,110
Tangible Personal Property	
Public Utility	1,542,100
General Tangible Personal Property	209,493
Total Assessed Values	\$142,262,143

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 and tangible personal property taxes and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund, the fire and police levy funds and the police and fire pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2008 operations and the collections 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 a revenue while the remainder of the receivable is deferred.

**Note 7 - Receivables**

Receivables at December 31, 2008, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services) and intergovernmental receivables arising from grants, entitlements and shared revenues and interest on investments.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Gasoline Tax	\$167,517
Homestead and Rollback	147,450
Local Government	89,525
Auto License	63,248
Estate Tax	2,959
Total	\$470,699

**City of Cortland, Ohio**  
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**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, 2008.

**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 – Interfund Transfers and Balances**

**A. Interfund Transfers**

The fire levy special revenue fund transferred \$80,000 to the fire improvement capital projects fund to provide additional resources for current operations.

**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/07	Additions	Reductions	Balance 12/31/08
Governmental Activities:				
Capital assets not being depreciated				
Land	\$17,576	\$0	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	969,672	0	0	969,672
Furniture, Fixtures and Equipment	610,727	94,523	(38,076)	667,174
Vehicles	1,073,095	37,350	(4,900)	1,105,545
Infrastructure:				
Roads	1,166,635	1,178,277	0	2,344,912
Storm Sewers	534,092	105,805	0	639,897
Sidewalks	49,678	0	0	49,678
Curbs	161,053	85,896	0	246,949
Total capital assets being depreciated	\$4,564,952	\$1,501,851	(\$42,976)	\$6,023,827

**City of Cortland, Ohio**  
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	Balance 12/31/07	Additions	Reductions	Balance 12/31/08
<b>Governmental Activities (continued):</b>				
Accumulated depreciation				
Buildings and Improvements	(\$517,584)	(\$18,723)	\$0	(\$536,307)
Furniture, Fixtures and Equipment	(382,851)	(45,666)	38,076	(390,441)
Vehicles	(641,433)	(70,446)	4,900	(706,979)
Infrastructure:				
Roads	(272,876)	(234,492)	0	(507,368)
Storm Sewers	(30,851)	(12,798)	0	(43,649)
Sidewalks	(4,968)	(1,242)	0	(6,210)
Curbs	(7,212)	(4,940)	0	(12,152)
Total accumulated depreciation	<u>(1,857,775)</u>	<u>(388,307) *</u>	<u>42,976</u>	<u>(2,203,106)</u>
Capital assets being depreciated, net	<u>2,707,177</u>	<u>1,113,544</u>	<u>0</u>	<u>3,820,721</u>
Governmental activities capital assets, net	<u><u>\$2,724,753</u></u>	<u><u>\$1,113,544</u></u>	<u><u>\$0</u></u>	<u><u>\$3,838,297</u></u>
<b>Business type Activities:</b>				
Capital assets not being depreciated				
Land	<u>\$45,087</u>	<u>\$0</u>	<u>\$0</u>	<u>\$45,087</u>
Capital assets being depreciated				
Furniture, Fixtures and Equipment	138,967	37,454	(13,076)	163,345
Vehicles	128,336	2,500	(4,900)	125,936
Infrastructure:				
Water Lines	5,838,196	0	0	5,838,196
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	<u>15,255,074</u>	<u>39,954</u>	<u>(17,976)</u>	<u>15,277,052</u>
Accumulated depreciation				
Furniture, Fixtures and Equipment	(106,585)	(11,598)	13,076	(105,107)
Vehicles	(94,261)	(7,896)	4,900	(97,257)
Infrastructure:				
Water Lines	(2,063,162)	(112,687)	0	(2,175,849)
Sewer Lines	(3,554,059)	(173,462)	0	(3,727,521)
Total accumulated depreciation	<u>(5,818,067)</u>	<u>(305,643)</u>	<u>17,976</u>	<u>(6,105,734)</u>
Capital assets being depreciated, net	<u>9,437,007</u>	<u>(265,689)</u>	<u>0</u>	<u>9,171,318</u>
Business type Activities capital assets, net	<u><u>\$9,482,094</u></u>	<u><u>(\$265,689)</u></u>	<u><u>\$0</u></u>	<u><u>\$9,216,405</u></u>



**City of Cortland, Ohio**  
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\* Depreciation expense was charged to governmental activities as follows:

General Government	\$26,598
Security of Persons and Property	97,982
Transportation	250,929
Basic Utility Services	<u>12,798</u>
Total	<u><u>\$388,307</u></u>

**Note 11 - 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 2008, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Trident Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	2,000,000
Argonaut Insurance Group	Commercial Property	4,907,232
	Public Employee Dishonesty	25,000
	Forgery	2,500
	Theft, Disappearance and Destruction:	
	Inside the Premises	7,000
	Outside the Premises	7,000
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 12 - Long-term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
<b>Business-Type Activities</b>			
<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
Southern Waterline - 2007	0%	328,900	2027

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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Changes in long-term obligations of the City during 2008 were as follows:

	Outstanding 12/31/2007	Additions	Reductions	Outstanding 12/31/2008	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
West Main Street	\$51,821	\$0	\$8,638	\$43,183	\$8,638
North High Street	176,344	0	25,256	151,088	25,256
South Mecca	189,417	0	17,634	171,783	17,634
Southern Waterline	320,678	0	16,445	304,233	16,445
<i>Total OPWC Loans</i>	738,260	0	67,973	670,287	67,973
Compensated Absences	52,867	11,849	11,194	53,522	4,106
<i>Total Business Type Activities</i>	<u>\$791,127</u>	<u>\$11,849</u>	<u>\$79,167</u>	<u>\$723,809</u>	<u>\$72,079</u>
<b>Governmental Type Activities</b>					
Compensated Absences	<u>\$232,421</u>	<u>\$48,530</u>	<u>\$29,381</u>	<u>\$251,570</u>	<u>\$22,675</u>

OPWC loans will be paid from water and sewer enterprise fund user service charges. 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.

The City's overall legal debt margin was \$14,937,525 at December 31, 2008. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008, are as follows:

*Business Type Activities*

Year	OPWC Loans
	Principal
2009	\$67,973
2010	67,972
2011	67,972
2012	67,972
2013	67,970
2014-2018	190,646
2019-2023	82,225
2024-2027	57,557
Total	<u>\$670,287</u>

**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**  
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**Note 14 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

Plan Description - 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, the investment of which 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 pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 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, 2008, 2007, and 2006 were \$60,755, \$56,164, and \$68,239 respectively; 92.19 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$1,680 made by the City and \$1,200 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

Plan Description - 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2008*

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care plan. The City's contributions to OP&F for police and firefighters were \$62,875 and \$85,214 for the year ended December 31, 2008, \$61,356 and \$79,234 for the year ended December 31, 2007, \$53,113 and \$70,112 for the year ended December 31, 2006. 72.43 percent for police and 70.28 percent for firefighters for 2008. The full amount has been contributed for 2007 and 2006.

**Note 15 - Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which 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.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$60,755, \$36,995 and \$32,155 respectively; 92.19 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2008*

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The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

***B. Ohio Police and Fire Pension Fund***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for 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.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.0 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$33,287 and \$33,345 for the year ended December 31, 2008, \$32,483 and \$31,005 for the year ended December 31, 2007, and \$35,032 and \$33,438 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 72.43 percent has been contributed for police and 70.28 percent has been contributed for firefighters for 2008.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2008*

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**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 2008, the City contributed \$3,891 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 2008, 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.



20 E. McKinley Way, Suite 4  
Poland, Ohio 44514  
Ph: 330.707.9035  
Fax: 888.516.1186

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**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, 2007 and 2008, which collectively comprise the City of Cortland's basic financial statements and have issued our report thereon dated June 25, 2009. 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 June 25, 2009.

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

A handwritten signature in blue ink, appearing to read "Canter & Co.", with a long horizontal flourish extending to the right.

Youngstown, Ohio  
June 25, 2009





**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  
SEPTEMBER 15, 2009**