



Dave Yost • Auditor of State

**CITY OF CORTLAND
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2011, 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'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, Trumbull County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Police Levy Fund, and Fire Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

July 26, 2013

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of Cortland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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

- During 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which recognizes constraints imposed upon the use of the resources in governmental funds and categorizes the constraints into five classifications.
- This is the City of Cortland's eighth publication of financial statements under the new GASB 34 reporting model.
- During 2011, the City received new OPWC and OWDA monies for the North Wellfield Interconnect and water storage tank water projects.
- Overall, governmental activities expenses increased as a result of increases in transportation expenses. The City actively pursues grants to offset costs of providing services and to offer new programs to the citizens of Cortland.
- The City had several additions to capital assets including improvements to roads, curbs and storm sewers and the purchase of vehicles as well as additional waterlines.

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 2011?" 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.

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.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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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 and changes in fund balances for the general fund, the police levy and the fire levy special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

City of Cortland, Ohio
Management's Discussion and Analysis
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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 2011 compared to 2010.

Table 1

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$4,501,764	\$4,800,182	\$970,043	\$1,298,457	\$5,471,807	\$6,098,639
Capital Assets, Net	4,348,240	4,004,749	10,865,943	10,395,048	15,214,183	14,399,797
<i>Total Assets</i>	8,850,004	8,804,931	11,835,986	11,693,505	20,685,990	20,498,436
Liabilities						
Current Liabilities	2,263,789	2,498,730	32,501	89,987	2,296,290	2,588,717
Long-Term Liabilities						
Due Within One Year	44,821	47,815	145,852	144,620	190,673	192,435
Due in More Than One Year	216,589	209,611	3,136,293	2,475,689	3,352,882	2,685,300
<i>Total Liabilities</i>	2,525,199	2,756,156	3,314,646	2,710,296	5,839,845	5,466,452
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,348,240	4,004,749	7,656,508	7,835,164	12,004,748	11,839,913
Restricted for:						
Capital Projects	203,444	177,906	0	0	203,444	177,906
Police	114,847	108,847	0	0	114,847	108,847
Fire	391,798	408,971	0	0	391,798	408,971
Street Construction, Maintenance and Repair	396,140	414,882	0	0	396,140	414,882
Other Purposes	87,416	89,871	0	0	87,416	89,871
Unrestricted	782,920	843,549	864,832	1,148,045	1,647,752	1,991,594
<i>Total Net Assets</i>	\$6,324,805	\$6,048,775	\$8,521,340	\$8,983,209	\$14,846,145	\$15,031,984

For the City, total net assets for governmental activities increased. A major component of the City's assets is capital assets. For 2011, the City's net capital assets increased due to a number of road projects completed during the year as well as several vehicle additions. This is a reflection of the commitment of the City to undertake major capital projects to protect the health and safety of its residents.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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Total net assets for business-type activities showed a decrease that can be directly attributed to the increase in long-term debt due to additional OPWC and OWDA funding.

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 2011 compared to 2010.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services	\$469,500	\$410,470	\$1,422,915	\$1,343,937	\$1,892,415	\$1,754,407
Operating Grants	754,641	689,185	0	0	754,641	689,185
Capital Grants	277,120	123,844	0	0	277,120	123,844
Total Program Revenues	1,501,261	1,223,499	1,422,915	1,343,937	2,924,176	2,567,436
General Revenues						
Property Taxes	2,091,821	2,167,151	0	0	2,091,821	2,167,151
Grants and Entitlements	363,656	342,638	0	0	363,656	342,638
Investment Earnings	16,157	25,534	0	0	16,157	25,534
Gain on Sale of Capital Assets	7,005	0	9,402	0	16,407	0
Other	42,222	21,284	25,245	13,105	67,467	34,389
Total General Revenues	2,520,861	2,556,607	34,647	13,105	2,555,508	2,569,712
<i>Total Revenues</i>	<i>4,022,122</i>	<i>3,780,106</i>	<i>1,457,562</i>	<i>1,357,042</i>	<i>5,479,684</i>	<i>5,137,148</i>
Program Expenses						
General Government	521,348	670,820	0	0	521,348	670,820
Security of Persons and Property	2,413,027	2,510,456	0	0	2,413,027	2,510,456
Public Health and Welfare	30	0	0	0	30	0
Leisure Time Activities	62,738	30,237	0	0	62,738	30,237
Community Environment	41,816	52,122	0	0	41,816	52,122
Transportation	707,133	371,735	0	0	707,133	371,735
Water	0	0	739,565	745,615	739,565	745,615
Sewer	0	0	1,179,866	1,109,259	1,179,866	1,109,259
Total Program Expenses	3,746,092	3,635,370	1,919,431	1,854,874	5,665,523	5,490,244
Increase (Decrease) in Net Assets	276,030	144,736	(461,869)	(497,832)	(185,839)	(353,096)
Net Assets Beginning of Year	6,048,775	5,904,039	8,983,209	9,481,041	15,031,984	15,385,080
Net Assets End of Year	\$6,324,805	\$6,048,775	\$8,521,340	\$8,983,209	\$14,846,145	\$15,031,984

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Governmental Activities

For governmental activities, there was an increase in revenues. This was mostly due to the increase in program revenues for 2011 in operating and capital grants. The City's overall general revenues saw a slight decrease due primarily to a decrease in both property taxes and interest revenue. Property tax collections are the largest source of revenue for governmental activities. The City collects 2.5 mills of inside millage and 16.66 mills of outside millage. The outside millage is generated from a 1.9 mill general fund operating levy which expires in tax year 2011 and was renewed for 5 years at the November 8, 2011 general election, an 8 mill police levy which is continuous, and a 6.76 fire levy which is also continuous. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services.

A review of table 2 also shows that program expenses increased from 2010 levels. This increase is can be contributed to increases in transportation expenses during the year due to an increase in street maintenance.

Overall, the largest expenses for the City are in the security of persons and property program which are the police and fire departments. The Cortland City Police Department is a full-service law enforcement agency consisting of 9 full-time, 5 part-time, and 4 reserve police officers. The department offers 24-hour patrol and citizen complaint response, as well as providing additional services such as vacation checks, business and citizen programs, fingerprinting, etc. The Cortland City Fire Department currently operates out of one station house. The department responds to nearly 900 emergencies each year. The department is staffed by 10 full-time and 20 part-time employees. The full time daily staff of six IAFF firefighter / Paramedics is supplemented by part time and volunteer crews.

General government expenses consist of administration and support service personnel within the City. The decrease in this expense from the prior year was the result of improvements being expensed in 2010 that did not take place in 2011.

Another major expense is transportation. The City uses a combination of the State license and gasoline excise taxes to fund a ten person service department.

Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services.

Table 3
Cost of Services

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2011	2010	2011	2010
General Government	\$521,348	\$670,820	(\$415,616)	(\$539,982)
Security of Person and Property	2,413,027	2,510,456	(1,709,727)	(1,947,526)
Public Health and Welfare	30	0	20	0
Leisure Time Activities	62,738	30,237	(57,534)	(28,013)
Community Environment	41,816	52,122	(35,634)	(42,107)
Transportation	707,133	371,735	(57,720)	140,368
Basic Utility Services	0	0	31,380	5,389
Total	\$3,746,092	\$3,635,370	(\$2,244,831)	(\$2,411,871)

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Business-Type Activities

Business-type activities include the City's water and sewer operations. In 2011, charges for services continued to be the major revenue source for business-type activities and they increased from the prior year. Expenses increased due to an increase in the depreciation on the City's capital assets as well as minor contracts entered into during the year.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found beginning on page 14 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, police levy and fire levy special revenue funds. The general fund saw a decrease in fund balance due to a decrease in property tax collections from a decrease in real property assessed values. The police levy and fire levy special revenue funds both saw decreases in fund balance. The decrease in the fire levy special revenue fund can be attributed to the decrease in property tax collections during the year out pacing decreases in expenditures. An increase in grant revenue in the police levy fund did not cover an increase in expenditures creating a decrease in fund balance.

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 2011, 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.

There was a slight decrease in revenues from the final budget to actual due in large part to property tax collections not meeting projections. The City was very aware of the revenue stream during the year and updated their certificate of estimated resources with the County several times during the course of 2011. There was also a large decrease in actual expenditures made compared to the final budget. This was due to restricting spending as much as possible in the City's efforts to maintain a positive fund balance.

City of Cortland, Ohio
Management's Discussion and Analysis
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Capital Assets and Debt Administration

Capital Assets

Table 4 shows 2011 balances of capital assets as compared to 2010.

Table 4
Capital Assets at December 31
(Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Construction in Progress	0	0	389,315	0	389,315	0
Buildings and Improvements	380,753	397,698	0	0	380,753	397,698
Furniture, Fixtures and Equipment	200,265	244,662	41,353	53,316	241,618	297,978
Vehicles	374,817	271,421	185,053	18,840	559,870	290,261
Infrastructure	3,374,829	3,073,392	10,205,135	10,277,805	13,579,964	13,351,197
Total Capital Assets	\$4,348,240	\$4,004,749	\$10,865,943	\$10,395,048	\$15,214,183	\$14,399,797

For 2011, the primary additions for governmental activities included a new police cruiser and five service vehicles. The cost of 4 of the service vehicles was shared with the water and sewer funds. Additions to infrastructure included improvements to roads, new storm sewers, curbs and sidewalks. The City disposed of 4 service vehicles, a police cruiser and a snow plow during 2011. The ownership of the 4 service vehicles disposed of was shared with business-type activities.

The primary addition for the business-type activities was the construction and completion of the Stahl Avenue, Dennis Drive and Golf Drive to St. Andrews water projects. The New Wellfield water project was also started during 2011. The water and sewer fund also purchased two new service trucks along with the 4 service vehicles whose costs were split with the general fund and the street maintenance and repair special revenue fund. The water and sewer fund also disposed of one vehicle during 2011 as well as 4 vehicles shared with governmental activities.

Additional information concerning the City's capital assets can be found in Note 12 to the basic financial statements.

Debt

Table 5 summarizes the City's long-term obligations outstanding.

Table 5
Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
OPWC Loans	\$0	\$0	\$2,021,642	\$1,871,006	\$2,021,642	\$1,871,006
OWDA Loans	0	0	1,187,793	688,878	1,187,793	688,878
Compensated Absences	261,410	257,426	72,710	60,425	334,120	317,851
Total	\$261,410	\$257,426	\$3,282,145	\$2,620,309	\$3,543,555	\$2,877,735

City of Cortland, Ohio
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The City's long-term obligations consists only of compensated absences, OPWC loans and OWDA loans. All OPWC loans and OWDA loans are business-type debt issued for infrastructure improvement projects, which are repaid using water and sewer revenues. During 2011, the City entered into one new OPWC loan and received additional proceeds on an OWDA loan.

Additional information concerning debt issuances can be found in Note 13 to the basic financial statements.

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.

City of Cortland, Ohio*Statement of Net Assets**December 31, 2011*

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,725,302	\$714,318	\$2,439,620
Accrued Interest Receivable	6	0	6
Accounts Receivable	72,292	246,171	318,463
Intergovernmental Receivable	460,883	0	460,883
Prepaid Items	28,492	9,554	38,046
Property Taxes Receivable	2,214,789	0	2,214,789
Nondepreciable Capital Assets	17,576	434,402	451,978
Depreciable Capital Assets, Net	4,330,664	10,431,541	14,762,205
<i>Total Assets</i>	<u>8,850,004</u>	<u>11,835,986</u>	<u>20,685,990</u>
Liabilities			
Accounts Payable	11,569	967	12,536
Accrued Wages	47,172	8,918	56,090
Contracts Payable	14,683	0	14,683
Intergovernmental Payable	145,889	22,616	168,505
Deferred Revenue	2,044,476	0	2,044,476
Long-Term Liabilities:			
Due Within One Year	44,821	145,852	190,673
Due In More Than One Year	216,589	3,136,293	3,352,882
<i>Total Liabilities</i>	<u>2,525,199</u>	<u>3,314,646</u>	<u>5,839,845</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,348,240	7,656,508	12,004,748
Restricted for:			
Capital Projects	203,444	0	203,444
Police	114,847	0	114,847
Fire	391,798	0	391,798
Street Construction, Maintenance and Repair	396,140	0	396,140
Other Purposes	87,416	0	87,416
Unrestricted	782,920	864,832	1,647,752
<i>Total Net Assets</i>	<u>\$6,324,805</u>	<u>\$8,521,340</u>	<u>\$14,846,145</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
Governmental Activities:				
General Government	\$521,348	\$105,732	\$0	\$0
Security of Persons and Property	2,413,027	320,952	382,348	0
Public Health and Welfare	30	50	0	0
Leisure Time Activities	62,738	5,204	0	0
Community Environment	41,816	6,182	0	0
Transportation	707,133	0	372,293	277,120
Basic Utility Services	0	31,380	0	0
<i>Total Governmental Activities</i>	<u>3,746,092</u>	<u>469,500</u>	<u>754,641</u>	<u>277,120</u>
Business-Type Activities:				
Water	739,565	696,669	0	0
Sewer	1,179,866	726,246	0	0
<i>Total Business-Type Activities</i>	<u>1,919,431</u>	<u>1,422,915</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$5,665,523</u></u>	<u><u>\$1,892,415</u></u>	<u><u>\$754,641</u></u>	<u><u>\$277,120</u></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
(\$415,616)	\$0	(\$415,616)
(1,709,727)	0	(1,709,727)
20	0	20
(57,534)	0	(57,534)
(35,634)	0	(35,634)
(57,720)	0	(57,720)
31,380	0	31,380
(2,244,831)	0	(2,244,831)
0	(42,896)	(42,896)
0	(453,620)	(453,620)
0	(496,516)	(496,516)
(2,244,831)	(496,516)	(2,741,347)
476,774	0	476,774
811,155	0	811,155
803,892	0	803,892
363,656	0	363,656
16,157	0	16,157
7,005	9,402	16,407
42,222	25,245	67,467
2,520,861	34,647	2,555,508
276,030	(461,869)	(185,839)
6,048,775	8,983,209	15,031,984
<u>\$6,324,805</u>	<u>\$8,521,340</u>	<u>\$14,846,145</u>

City of Cortland, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Police Levy	Fire Levy
Assets			
Equity in Pooled Cash and Cash Equivalents	\$500,567	\$140,922	\$376,121
Receivables:			
Taxes	498,882	881,944	833,963
Accounts	570	0	71,722
Accrued Interest	6	0	0
Intergovernmental Receivable	149,843	63,887	64,102
Prepaid Items	9,194	10,029	7,799
<i>Total Assets</i>	<u>\$1,159,062</u>	<u>\$1,096,782</u>	<u>\$1,353,707</u>
Liabilities			
Accounts Payable	\$504	\$1,950	\$848
Accrued Wages	6,181	17,877	19,850
Contracts Payable	14,683	0	0
Intergovernmental Payable	17,340	54,138	68,450
Deferred Revenue	605,811	945,831	898,065
<i>Total Liabilities</i>	<u>644,519</u>	<u>1,019,796</u>	<u>987,213</u>
Fund Balances			
Nonspendable	9,194	10,029	7,799
Restricted	0	66,957	358,695
Committed	0	0	0
Assigned	33,020	0	0
Unassigned	472,329	0	0
<i>Total Fund Balances</i>	<u>514,543</u>	<u>76,986</u>	<u>366,494</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,159,062</u>	<u>\$1,096,782</u>	<u>\$1,353,707</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, 2011*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$1,680,433
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$707,692	\$1,725,302	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,348,240
0	2,214,789		
0	72,292	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
0	6		
183,051	460,883	Property Taxes	170,313
1,470	28,492	Intergovernmental	387,229
		Total	557,542
<u>\$892,213</u>	<u>\$4,501,764</u>		
\$8,267	\$11,569	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>(261,410)</u>
3,264	47,172		
0	14,683		
5,961	145,889		
152,311	2,602,018		
<u>169,803</u>	<u>2,821,331</u>		
1,470	28,492		
558,002	983,654		
162,938	162,938		
0	33,020		
0	472,329		
<u>722,410</u>	<u>1,680,433</u>		
<u>\$892,213</u>	<u>\$4,501,764</u>	<i>Net Assets of Governmental Activities</i>	<u><u>\$6,324,805</u></u>

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Police Levy	Fire Levy
Revenues			
Property Taxes	\$467,289	\$792,540	\$788,298
Charges for Services	72,541	0	314,136
Licenses and Permits	77,720	0	0
Fines and Forfeitures	4,733	0	0
Intergovernmental	353,322	153,409	149,866
Interest	13,457	0	0
Other	6,147	16,258	19,637
<i>Total Revenues</i>	<u>995,209</u>	<u>962,207</u>	<u>1,271,937</u>
Expenditures			
Current:			
General Government	750,009	0	0
Security of Persons and Property	46,220	984,474	1,193,740
Public Health Services	0	0	0
Leisure Time Activities	37,031	0	0
Community Environment	41,816	0	0
Transportation	0	0	0
Basic Utility Services	223,286	0	0
<i>Total Expenditures</i>	<u>1,098,362</u>	<u>984,474</u>	<u>1,193,740</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(103,153)</u>	<u>(22,267)</u>	<u>78,197</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	11,153	0	0
Transfers In	0	0	0
Transfers Out	(149,272)	0	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(138,119)</u>	<u>0</u>	<u>(100,000)</u>
<i>Net Change in Fund Balance</i>	(241,272)	(22,267)	(21,803)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>755,815</u>	<u>99,253</u>	<u>388,297</u>
<i>Fund Balances End of Year</i>	<u><u>\$514,543</u></u>	<u><u>\$76,986</u></u>	<u><u>\$366,494</u></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, 2011*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$109,453)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$2,048,127	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
0	386,677	Capital Outlay	812,533
0	77,720	Depreciation	<u>(464,894)</u>
370	5,103		
736,538	1,393,135	Total	347,639
2,700	16,157	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(4,148)
180	42,222	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
		Property Taxes	43,694
		Intergovernmental	<u>2,282</u>
739,788	3,969,141	Total	45,976
		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>(3,984)</u>
0	750,009	<i>Change in Net Assets of Governmental Activities</i>	<u>\$276,030</u>
116,877	2,341,311		
30	30		
25,707	62,738		
0	41,816		
670,557	670,557		
0	223,286		
813,171	4,089,747		
(73,383)	(120,606)		
0	11,153		
249,272	249,272		
0	(249,272)		
249,272	11,153		
175,889	(109,453)		
546,521	1,789,886		
<u>\$722,410</u>	<u>\$1,680,433</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$479,759	\$483,276	\$467,289	(\$15,987)
Charges for Services	72,232	72,762	70,355	(2,407)
Licenses and Permits	79,794	80,379	77,720	(2,659)
Fines and Forfeitures	5,125	5,163	4,992	(171)
Intergovernmental	349,764	352,328	340,673	(11,655)
Interest	18,549	18,685	18,067	(618)
Other	6,609	6,739	6,147	(592)
<i>Total Revenues</i>	<u>1,011,832</u>	<u>1,019,332</u>	<u>985,243</u>	<u>(34,089)</u>
Expenditures				
Current:				
General Government	1,069,214	1,073,734	752,331	321,403
Security of Persons and Property	65,688	65,966	46,220	19,746
Leisure Time Activities	52,628	52,849	37,031	15,818
Community Environment	58,001	58,244	40,554	17,690
Basic Utility Services	317,334	318,676	256,306	62,370
<i>Total Expenditures</i>	<u>1,562,865</u>	<u>1,569,469</u>	<u>1,132,442</u>	<u>437,027</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(551,033)</u>	<u>(550,137)</u>	<u>(147,199)</u>	<u>402,938</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	11,153	11,153	11,153	0
Transfers Out	(212,146)	(213,042)	(149,272)	63,770
<i>Total Other Financing Sources (Uses)</i>	<u>(200,993)</u>	<u>(201,889)</u>	<u>(138,119)</u>	<u>63,770</u>
<i>Net Change in Fund Balance</i>	(752,026)	(752,026)	(285,318)	466,708
<i>Fund Balance Beginning of Year</i>	751,661	751,661	751,661	0
Prior Year Encumbrances Appropriated	365	365	365	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$466,708</u>	<u>\$466,708</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$838,085	\$796,901	\$792,540	(\$4,361)
Intergovernmental	162,225	154,253	153,409	(844)
Other	17,192	16,348	16,258	(90)
<i>Total Revenues</i>	1,017,502	967,502	962,207	(5,295)
Expenditures				
Current:				
Security of Persons and Property	1,186,910	1,136,910	990,693	146,217
<i>Net Change in Fund Balance</i>	(169,408)	(169,408)	(28,486)	140,922
<i>Fund Balance Beginning of Year</i>	167,257	167,257	167,257	0
Prior Year Encumbrances Appropriated	2,151	2,151	2,151	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$140,922</u>	<u>\$140,922</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$799,118	\$799,118	\$788,298	(\$10,820)
Charges for Services	299,570	299,570	295,514	(4,056)
Intergovernmental	151,923	151,923	149,866	(2,057)
Other	19,907	19,907	19,637	(270)
<i>Total Revenues</i>	1,270,518	1,270,518	1,253,315	(17,203)
Expenditures				
Current:				
Security of Persons and Property	1,584,985	1,584,985	1,191,661	393,324
<i>Excess of Revenues Over (Under) Expenditures</i>	(314,467)	(314,467)	61,654	376,121
Other Financing Uses				
Transfers Out	(100,000)	(100,000)	(100,000)	0
<i>Net Change in Fund Balance</i>	(414,467)	(414,467)	(38,346)	376,121
<i>Fund Balance Beginning of Year</i>	414,467	414,467	414,467	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$376,121</u>	<u>\$376,121</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2011

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$536,533	\$177,785	\$714,318
Accounts Receivable	123,056	123,115	246,171
Prepaid Items	4,777	4,777	9,554
<i>Total Current Assets</i>	<u>664,366</u>	<u>305,677</u>	<u>970,043</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	433,715	687	434,402
Depreciable Capital Assets, Net	5,353,230	5,078,311	10,431,541
<i>Total Noncurrent Assets</i>	<u>5,786,945</u>	<u>5,078,998</u>	<u>10,865,943</u>
<i>Total Assets</i>	<u>6,451,311</u>	<u>5,384,675</u>	<u>11,835,986</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	489	478	967
Accrued Wages	4,311	4,607	8,918
Intergovernmental Payable	11,009	11,607	22,616
Compensated Absences Payable	4,920	4,920	9,840
OPWC Loans Payable	102,119	33,893	136,012
<i>Total Current Liabilities</i>	<u>122,848</u>	<u>55,505</u>	<u>178,353</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	35,833	27,037	62,870
OPWC Loans Payable	1,813,853	71,777	1,885,630
OWDA Loans Payable	1,187,793	0	1,187,793
<i>Total Long-Term Liabilities</i>	<u>3,037,479</u>	<u>98,814</u>	<u>3,136,293</u>
<i>Total Liabilities</i>	<u>3,160,327</u>	<u>154,319</u>	<u>3,314,646</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,683,180	4,973,328	7,656,508
Unrestricted	607,804	257,028	864,832
<i>Total Net Assets</i>	<u>\$3,290,984</u>	<u>\$5,230,356</u>	<u>\$8,521,340</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, 2011*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$684,811	\$723,276	\$1,408,087
Tap-In Fees	11,858	2,970	14,828
Other	25,065	180	25,245
<i>Total Operating Revenues</i>	<u>721,734</u>	<u>726,426</u>	<u>1,448,160</u>
Operating Expenses			
Personal Services	275,436	288,427	563,863
Materials and Supplies	62,439	36,555	98,994
Contractual Services	215,846	660,507	876,353
Depreciation	166,084	194,377	360,461
<i>Total Operating Expenses</i>	<u>719,805</u>	<u>1,179,866</u>	<u>1,899,671</u>
<i>Operating Income (Loss)</i>	<u>1,929</u>	<u>(453,440)</u>	<u>(451,511)</u>
Non-Operating Revenues (Expenses)			
Gain on Sale of Capital Assets	3,076	6,326	9,402
Interest and Fiscal Charges	(19,760)	0	(19,760)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(16,684)</u>	<u>6,326</u>	<u>(10,358)</u>
<i>Change in Net Assets</i>	(14,755)	(447,114)	(461,869)
<i>Net Assets Beginning of Year</i>	<u>3,305,739</u>	<u>5,677,470</u>	<u>8,983,209</u>
<i>Net Assets End of Year</i>	<u>\$3,290,984</u>	<u>\$5,230,356</u>	<u>\$8,521,340</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, 2011

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$691,062	\$729,532	\$1,420,594
Tap In Fees	11,858	2,970	14,828
Other Operating Revenues	25,065	180	25,245
Cash Payments to Suppliers for Materials and Supplies	(61,950)	(36,077)	(98,027)
Cash Payments for Employee Services and Benefits	(269,388)	(281,507)	(550,895)
Cash Payments for Contractual Services	(234,568)	(700,577)	(935,145)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>162,079</u>	<u>(285,479)</u>	<u>(123,400)</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Sale of Capital Assets	3,076	8,076	11,152
Acquisition of Capital Assets	(676,702)	(156,404)	(833,106)
OPWC Loans Issued	242,748	0	242,748
OWDA Loans Issued	521,195	0	521,195
Principal Paid on OPWC Loans	(58,219)	(33,893)	(92,112)
Principal Paid on OWDA Loans	(22,280)	0	(22,280)
Interest Paid on OWDA Loans	(19,760)	0	(19,760)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(9,942)</u>	<u>(182,221)</u>	<u>(192,163)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	152,137	(467,700)	(315,563)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>384,396</u>	<u>645,485</u>	<u>1,029,881</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$536,533</u>	<u>\$177,785</u>	<u>\$714,318</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	<u>\$1,929</u>	<u>(\$453,440)</u>	<u>(\$451,511)</u>
Adjustments:			
Depreciation	166,084	194,377	360,461
Decrease in Assets:			
Accounts Receivable	6,251	6,256	12,507
Prepaid Items	172	172	344
Increase (Decrease) in Liabilities:			
Accounts Payable	(2,433)	(389)	(2,822)
Accrued Wages	(84)	(175)	(259)
Contracts Payable	(15,972)	0	(15,972)
Compensated Absences Payable	6,135	6,150	12,285
Intergovernmental Payable	(3)	(38,430)	(38,433)
<i>Total Adjustments</i>	<u>160,150</u>	<u>167,961</u>	<u>328,111</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$162,079</u>	<u>(\$285,479)</u>	<u>(\$123,400)</u>

See accompanying notes to the basic financial statements

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City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 17 to the basic financial statements.

The City’s management believes these financial statements present all activities for which the City is financially accountable.

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.

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, 2011

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.

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 and reports all financial resources except those required to be accounted for and reported 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 and report a restricted property tax police operating levy restricted for police equipment and for salaries of the policemen.

Fire Levy Fund The fire levy special revenue fund is used to account for and report a restricted property tax fire operating levy restricted for fire equipment and for salaries of firemen.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 and report 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 and reports the provision of water service to the residents and commercial users located within the City.

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

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.

Basis of Accounting

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

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 7). 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, 2011, but which were levied to finance 2012 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.

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".

During 2011, the City's investments were limited to non-negotiable certificates of deposit, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's net asset value per share price which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$13,457 which includes \$8,769 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, 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.

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:

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.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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.

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.

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resources providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City Council or ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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. 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.

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Payments for interfund services provided and used are not eliminated.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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.

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.

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.

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. Council appropriations are made to the department level within the general fund and at the fund level for all other funds. 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 3 – Change in Accounting Principles and Restatement of Prior Year Balances

Changes in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” as well as Governmental Accounting Standard Board (GASB) Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the City’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City’s financial statements.

Restatement of Prior Year Fund Balance/Net Assets

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	General	Police Levy	Fire Levy	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at December 31, 2010	\$753,709	\$99,253	\$388,297	\$548,627	\$1,789,886
Change in Fund Structure	2,106	0	0	(2,106)	0
Adjusted Fund Balance at December 31, 2010	<u>\$755,815</u>	<u>\$99,253</u>	<u>\$388,297</u>	<u>\$546,521</u>	<u>\$1,789,886</u>

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Fund Balances	General	Police Levy	Fire Levy	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Prepays	\$9,194	\$10,029	\$7,799	\$1,470	\$28,492
<i>Restricted for</i>					
Public Safety	0	66,957	358,695	1,779	427,431
Street Maintenance	0	0	0	352,779	352,779
Capital Improvements	0		0	203,444	203,444
<i>Total Restricted</i>	<u>0</u>	<u>66,957</u>	<u>358,695</u>	<u>558,002</u>	<u>983,654</u>
<i>Committed to</i>					
Capital Improvements	0	0	0	162,938	162,938
<i>Assigned to</i>					
Other Purposes	33,020	0	0	0	33,020
<i>Unassigned</i>	<u>472,329</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>472,329</u>
<i>Total Fund Balances</i>	<u>\$514,543</u>	<u>\$76,986</u>	<u>\$366,494</u>	<u>\$722,410</u>	<u>\$1,680,433</u>

Note 5 - 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.
5. Budgetary revenues and expenditures of the new customer service fund are classified to the general fund for GAAP reporting.

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:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Net Change in Fund Balances

	General	Police Levy	Fire Levy
GAAP Basis	(\$241,272)	(\$22,267)	(\$21,803)
Net Adjustments for Revenue Accruals	(7,564)	0	(18,622)
Beginning Unrecorded Cash	(4,837)	0	0
Ending Unrecorded Cash	230	0	0
Net Adjustments for Expenditure Accruals	2,372	(6,219)	2,079
Excess of Revenues Under Expenditures			
New Customer Service	(1,227)	0	0
Encumbrances	(33,020)	0	0
Budget Basis	<u>(\$285,318)</u>	<u>(\$28,486)</u>	<u>(\$38,346)</u>

Note 6 - 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;
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;

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
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) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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, 2011, the carrying amount of all City deposits was \$2,439,965. At year end, \$1,317,381 of the City's bank balance of \$2,083,497 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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, 2011, the City had an investment with STAR Ohio. The fair value of this investment was \$400,059 and had an average maturity of 57 days.

Credit Risk STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio 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 7 - Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

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. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$19.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2011 property tax receipts were based are as follows:

Real Property	\$131,683,430
Public Utility Personal Property	<u>1,740,050</u>
Total	<u><u>\$133,423,480</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 8 - Receivables

Receivables at December 31, 2011, 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:

	<u>Amount</u>
Homestead and Rollback	\$165,752
Gasoline Tax	135,858
Local Government	65,584
Auto License	47,193
Estate Tax	45,508
Tangible Personal Property Tax Loss Reimbursement	<u>988</u>
Total	<u><u>\$460,883</u></u>

Note 9 - Contingencies

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, 2011.

Litigation

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

Note 10 – Interfund Transfers

The general fund transferred \$149,272 to the parks and recreation capital projects fund and the fire levy special revenue fund transferred \$100,000 to the fire improvement capital projects fund to provide additional resources for current operations.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 2011, 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 - Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
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	733,100	0	(20,250)	712,850
Vehicles	1,097,780	186,985	(36,698)	1,248,067
Infrastructure:				
Roads	2,942,580	220,490	0	3,163,070
Storm Sewers	760,107	286,894	0	1,047,001
Sidewalks	240,184	0	0	240,184
Curbs	276,151	118,164	0	394,315
Total capital assets being depreciated	\$7,019,574	\$812,533	(\$56,948)	\$7,775,159

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Governmental Activities (continued):				
Accumulated depreciation				
Buildings and Improvements	(\$571,974)	(\$16,945)	\$0	(\$588,919)
Furniture, Fixtures and Equipment	(488,438)	(42,647)	18,500	(512,585)
Vehicles	(826,359)	(81,191)	34,300	(873,250)
Infrastructure:				
Roads	(1,036,691)	(289,997)	0	(1,326,688)
Storm Sewers	(72,407)	(20,940)	0	(93,347)
Sidewalks	(13,918)	(5,288)	0	(19,206)
Curbs	(22,614)	(7,886)	0	(30,500)
Total accumulated depreciation	<u>(3,032,401)</u>	<u>(464,894) *</u>	<u>52,800</u>	<u>(3,444,495)</u>
Capital assets being depreciated, net	<u>3,987,173</u>	<u>347,639</u>	<u>(4,148)</u>	<u>4,330,664</u>
Governmental activities capital assets, net	<u>\$4,004,749</u>	<u>\$347,639</u>	<u>(\$4,148)</u>	<u>\$4,348,240</u>
	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Business type Activities:				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Construction in progress	0	389,315	0	389,315
Total capital assets not being depreciated	<u>45,087</u>	<u>389,315</u>	<u>0</u>	<u>434,402</u>
Capital assets being depreciated				
Furniture, Fixtures and Equipment	183,501	0	(17,500)	166,001
Vehicles	118,171	193,162	(19,912)	291,421
Infrastructure:				
Water Lines	7,638,379	250,629	0	7,889,008
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	<u>17,089,626</u>	<u>443,791</u>	<u>(37,412)</u>	<u>17,496,005</u>
Accumulated depreciation				
Furniture, Fixtures and Equipment	(130,185)	(10,213)	15,750	(124,648)
Vehicles	(99,331)	(26,949)	19,912	(106,368)
Infrastructure:				
Water Lines	(2,441,696)	(152,833)	0	(2,594,529)
Sewer Lines	(4,068,453)	(170,466)	0	(4,238,919)
Total accumulated depreciation	<u>(6,739,665)</u>	<u>(360,461)</u>	<u>35,662</u>	<u>(7,064,464)</u>
Capital assets being depreciated, net	<u>10,349,961</u>	<u>83,330</u>	<u>(1,750)</u>	<u>10,431,541</u>
Business type Activities capital assets, net	<u>\$10,395,048</u>	<u>\$472,645</u>	<u>(\$1,750)</u>	<u>\$10,865,943</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

* Depreciation expense was charged to governmental activities as follows:

General Government	\$41,687
Security of Persons and Property	91,824
Transportation	310,443
Basic Utility Services	<u>20,940</u>
Total	<u><u>\$464,894</u></u>

Note 13 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business-Type Activities			
<i>Ohio Public Works Commission Loans:</i>			
West Main Street - 1994	0%	\$172,749	2014
North High Street - 1998	0%	352,685	2018
South Mecca - 1995	0%	507,071	2015
Southern Waterline - 2007	0%	328,900	2027
North High Street II - 2009	0%	375,193	2031
Willow Park Tank Replacement - 2009	0%	77,595	2031
North Wellfield Interconnect - 2011	0%	242,748	2032
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	1,210,073	2031

Changes in long-term obligations of the City during 2011 were as follows:

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
West Main Street	\$25,912	\$0	\$8,637	\$17,275	\$8,637
North High Street	123,440	0	17,634	105,806	17,634
South Mecca	113,651	0	25,256	88,395	25,256
Southern Waterline	271,343	0	16,445	254,898	16,445
North High Street II	458,660	0	24,140	434,520	24,140
Willow Park Tank Replacement	878,000	0	0	878,000	43,900
North Wellfield Interconnect	0	242,748	0	242,748	0
<i>Total OPWC Loans</i>	<u>1,871,006</u>	<u>242,748</u>	<u>92,112</u>	<u>2,021,642</u>	<u>136,012</u>
Ohio Water Development Authority Loan					
Water Storage Tank	688,878	521,195	22,280	1,187,793	0
Compensated Absences	60,425	20,893	8,608	72,710	9,840
<i>Total Business Type Activities</i>	<u><u>\$2,620,309</u></u>	<u><u>\$784,836</u></u>	<u><u>\$123,000</u></u>	<u><u>\$3,282,145</u></u>	<u><u>\$145,852</u></u>
Governmental Type Activities					
Compensated Absences	<u>\$257,426</u>	<u>\$51,799</u>	<u>\$47,815</u>	<u>\$261,410</u>	<u>\$44,821</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

OPWC loans will be paid from water and sewer enterprise fund user service charges. The OWDA loan will be paid from the water 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 \$14,009,465 at December 31, 2011. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, are as follows:

Business Type Activities

Year	OPWC Loans Principal
2012	\$136,012
2013	136,013
2014	127,375
2015	114,746
2016	102,120
2017-2021	440,060
2022-2026	422,425
2027-2031	300,143
Total	\$1,778,894

During 2010, the City entered into a contractual agreement for a loan from the Ohio Water Development Authority (OWDA). The proceeds of the loan were used for a water storage tank. The loan will not have an accurate repayment schedule until the loan is finalized and, therefore, is not included in the schedule of future annual debt service requirements. The balance of this loan is \$1,187,793.

During 2011, the City entered into a contractual agreement for a loan from the Ohio Public Works Commission (OPWC). The proceeds of the loan were used for the North Wellfield Interconnect. The loan will not have an accurate repayment schedule until the loan is finalized and, therefore, is not included in the schedule of future annual debt service requirements. The balance of this loan is \$242,748.

Note 14 - Compensated Absences

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 15 - Defined Benefit Pension Plans

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 Pension 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 in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$73,144, \$53,740 and \$61,449, respectively. For 2011, 90.04 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$2,641 made by the City and \$1,886 made by plan members.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$67,926 and \$93,739 for the year ended December 31, 2011, \$63,303 and \$88,210 for the year ended December 31, 2010, and \$62,281 and \$86,785 for the year ended December 31, 2009, respectively. For 2011, 66.20 percent for police and 65.86 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 16 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 mandate, 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree 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 post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$29,257, \$30,637 and \$44,432, respectively. For 2011, 90.04 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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 on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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 health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium 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 health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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 – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, 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 Sections 115 and 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 \$35,961 and \$36,681 for the year ended December 31, 2011, \$33,513 and \$34,517 for the year ended December 31, 2010, and \$32,972 and \$33,959 for the year ended December 31, 2009. For 2011, 66.20 percent has been contributed for police and 65.86 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 17 - Jointly Governed Organizations

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 2011, the City contributed \$3,777 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

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 2011, the City contributed \$1,492 to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the City Council:

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, Trumbull County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 26, 2013, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We also noted a certain matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 26, 2013.

We intend this report solely for the information and use of management, and City Council, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

July 26, 2013

**CITY OF CORTLAND
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Accounting for OPWC and OWDA Monies

<i>Finding Number</i>	2011-001
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NONCOMPLIANCE/MATERIAL WEAKNESS

Auditor of State Bulletins 2000-008 and 2002-004 provide guidance for local governments participating in on-behalf programs with other governments as to the application of Statement No. 24 of the Governmental Accounting Standards Board. In general, when a local government enters into an on-behalf program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf disbursements are made.

There are also several budgetary compliance requirements associated with the recording of such program receipts and disbursements:

- Ohio Rev. Code Section 5705.09(F) requires the legislative authority to approve, by resolution, the grant or project application and must establish any fund(s) necessary to meet the grant or project objectives.
- Once the grant is awarded or the application is approved, the fiscal officer must obtain an official certificate of estimated resources or an amended certificate of estimated resources for all or part of the grant or project, based on the expected cash disbursements to be made on the local government's behalf in the current fiscal year in accordance with Ohio Rev. Code Section 5705.36(A)(3).
- Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated; therefore, appropriations should be recorded in accordance with the terms and conditions of the grant or project agreement. Ohio Rev. Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure prior to recording the appropriations.

During 2011, the City was the beneficiary of Ohio Public Works Commission (OPWC) monies that were paid directly to the vendor by OPWC for grants in the amount of \$277,120 and for loans in the amount of \$242,748. The City erroneously posted \$297,811 to their Issue II grants fund and no receipts or expenditures to their Water Fund for the OPWC loans. The City also was the beneficiary of Ohio Water Development Authority (OWDA) loans that were paid directly to the vendor by OWDA. On behalf of the City, OWDA paid the vendor \$521,195 during 2011. The City did not post any receipts or expenditures for the OWDA activity. The financial statements have been adjusted to properly present these monies.

In addition, the City did not budget for any of the OPWC and OWDA monies as required.

When approved for funding by a State or Federal agency, the City should follow the reporting requirements summarized by Auditor of State Bulletins 2000-008 and 2002-004, as well as applicable budgetary requirements of the Ohio Revised Code. When the City receives notice that funds will be expended on its behalf, the City should certify the available resources to the County Budget Commission and amend appropriations to account for the expected grant receipts and expenditures.

Official's Response: Going forward, the City will make sure that it has access to information regarding payments made on behalf of the City for these loans and when they are made, and the corresponding entries will be made to the financial records.



Dave Yost • 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 10, 2013**