



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

City of Cortland, Ohio
General Purpose Financial Statements
For the Year Ended December 31, 1999
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REPORT OF INDEPENDENT ACCOUNTANTS

Members of City Council
City of Cortland
400 North High Street
Cortland, Ohio 44410

We have audited the accompanying general-purpose financial statements of the City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cortland, Trumbull County, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2001 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

June 20, 2001

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City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Assets and Other Debits</i>				
Assets				
Equity in Pooled Cash and Cash and Cash Equivalents	\$540,629	\$722,941	\$22,160	\$35,070
Receivables:				
Taxes	433,807	1,185,192	61,666	0
Accounts	897	51,584	0	0
Interest	116	0	0	0
Intergovernmental Receivable	25,376	51,179	0	0
Advances to Other Funds	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	\$1,000,825	\$2,010,896	\$83,826	\$35,070

Proprietary Fund Type	Account Groups			Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations		
Enterprise				
	\$493,274	\$0	\$0	\$1,814,074
	0	0	0	1,680,665
	218,222	0	0	270,703
		0	0	116
	0	0	0	76,555
	48,000	0	0	48,000
	1,754,457	2,420,668	0	4,175,125
	0	0	22,160	22,160
	0	0	400,229	400,229
	<u>\$2,513,953</u>	<u>\$2,420,668</u>	<u>\$422,389</u>	<u>\$8,487,627</u>

City of Cortland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Liabilities, Fund Equity and Other Credits</i>				
Liabilities				
Accounts Payable	\$4,479	\$2,689	\$0	\$2,386
Accrued Wages	3,385	16,311	0	0
Compensated Absences Payable	4,384	2,902	0	0
Intergovernmental Payable	1,435	6,964	0	0
Deferred Revenue	433,807	1,185,192	61,666	0
Advances from Other Funds	0	48,000	0	0
Capital Leases Payable	0	0	0	0
OPWC Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<i>Total Liabilities</i>	447,490	1,262,058	61,666	2,386
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	13,179	1,055	0	0
Unreserved, Undesignated	540,156	747,783	22,160	32,684
<i>Total Fund Equity and Other Credits</i>	553,335	748,838	22,160	32,684
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$1,000,825	\$2,010,896	\$83,826	\$35,070

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Enterprise			
	\$1,867	\$0	\$11,421
	4,294	0	23,990
	14,360	0	54,624
	45,943	0	94,034
	0	0	1,680,665
	0	0	48,000
	0	29,719	29,719
	855,568	0	855,568
	0	320,000	320,000
	<u>922,032</u>	<u>0</u>	<u>3,118,021</u>
	0	2,420,668	2,420,668
	428,867	0	428,867
	1,163,054	0	1,163,054
	0	0	14,234
	<u>0</u>	<u>0</u>	<u>1,342,783</u>
	<u>1,591,921</u>	<u>2,420,668</u>	<u>5,369,606</u>
	<u>\$2,513,953</u>	<u>\$2,420,668</u>	<u>\$8,487,627</u>

City of Cortland, Ohio
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For The Year Ended December 31, 1999*

	Governmental	
	General	Special Revenue
Revenues		
Property and Other Taxes	\$377,996	\$1,265,124
Charges for Services	0	52,767
Licenses, Permits and Fees	60,866	0
Fines and Forfeitures	8,129	1,485
Intergovernmental	209,176	352,941
Interest	66,712	7,531
Contributions and Donations	0	310
Other	1,235	1,133
	<u>724,114</u>	<u>1,681,291</u>
Expenditures		
Current:		
General Government	415,494	0
Security of Persons and Property	14,671	1,235,790
Public Health and Welfare	11,894	0
Transportation	0	202,906
Community Environment	23,860	12,499
Basic Utility Services	500	0
Leisure Time Activities	19,514	0
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	13,581
Interest and Fiscal Charges	0	5,664
	<u>485,933</u>	<u>1,470,440</u>
<i>Total Expenditures</i>		
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>238,181</u>	<u>210,851</u>
Other Financing Sources (Uses)		
Operating Transfers In	0	36,100
Operating Transfers Out	(86,100)	0
	<u>(86,100)</u>	<u>36,100</u>
<i>Total Other Financing Sources (Uses)</i>		
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>152,081</u>	<u>246,951</u>
<i>Fund Balances Beginning of Year</i>	<u>401,254</u>	<u>501,887</u>
<i>Fund Balances End of Year</i>	<u>\$553,335</u>	<u>\$748,838</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$53,338	\$0	\$1,696,458
0	0	52,767
0	0	60,866
0	0	9,614
6,487	48,649	617,253
0	0	74,243
0	0	310
0	0	2,368
<u>59,825</u>	<u>48,649</u>	<u>2,513,879</u>
1,156	0	416,650
0	0	1,250,461
0	0	11,894
0	0	202,906
0	0	36,359
0	0	500
0	0	19,514
0	103,732	103,732
40,000	0	53,581
22,800	0	28,464
<u>63,956</u>	<u>103,732</u>	<u>2,124,061</u>
<u>(4,131)</u>	<u>(55,083)</u>	<u>389,818</u>
0	50,000	86,100
0	0	(86,100)
<u>0</u>	<u>50,000</u>	<u>0</u>
(4,131)	(5,083)	389,818
<u>26,291</u>	<u>37,767</u>	<u>967,199</u>
<u>\$22,160</u>	<u>\$32,684</u>	<u>\$1,357,017</u>

City of Cortland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For The Year Ended December 31, 1999*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Property and Other Taxes	\$376,060	\$377,996	\$1,936
Charges for Services	0	0	0
Licenses, Permits and Fees	49,217	59,969	10,752
Fines and Forfeitures	8,000	8,647	647
Intergovernmental	174,447	203,778	29,331
Interest	55,000	67,343	12,343
Contributions and Donations	0	0	0
Other	775	1,235	460
<i>Total Revenues</i>	<u>663,499</u>	<u>718,968</u>	<u>55,469</u>
Expenditures			
Current:			
General Government	784,396	435,672	348,724
Security of Persons and Property	15,000	14,627	373
Public Health and Welfare	12,000	11,894	106
Transportation	0	0	0
Community Environment	29,900	24,223	5,677
Basic Utility Services	39,200	464	38,736
Leisure Time Activities	19,600	19,280	320
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>900,096</u>	<u>506,160</u>	<u>393,936</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(236,597)</u>	<u>212,808</u>	<u>449,405</u>
Other Financing Sources (Uses)			
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(175,000)	(86,100)	88,900
<i>Total Other Financing Sources (Uses)</i>	<u>(175,000)</u>	<u>(86,100)</u>	<u>88,900</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(411,597)	126,708	538,305
<i>Fund Balances Beginning of Year</i>	381,598	381,598	0
Prior Year Encumbrances Appropriated	16,720	16,720	0
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$13,279)</u>	<u>\$525,026</u>	<u>\$538,305</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,270,747	\$1,265,124	(\$5,623)	\$53,086	\$53,338	\$252
42,000	37,279	(4,721)	0	0	0
0	0	0	0	0	0
1,500	1,485	(15)	0	0	0
269,400	321,033	51,633	7,000	6,487	(513)
5,000	7,531	2,531	0	0	0
500	310	(190)	0	0	0
4,000	1,133	(2,867)	0	0	0
<u>1,593,147</u>	<u>1,633,895</u>	<u>40,748</u>	<u>60,086</u>	<u>59,825</u>	<u>(261)</u>
0	0	0	23,577	1,156	22,421
1,759,202	1,268,272	490,930	0	0	0
3,128	0	3,128	0	0	0
380,546	203,886	176,660	0	0	0
22,992	13,202	9,790	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	40,000	40,000	0
0	0	0	22,800	22,800	0
<u>2,165,868</u>	<u>1,485,360</u>	<u>680,508</u>	<u>86,377</u>	<u>63,956</u>	<u>22,421</u>
<u>(572,721)</u>	<u>148,535</u>	<u>721,256</u>	<u>(26,291)</u>	<u>(4,131)</u>	<u>22,160</u>
(24,000)	(24,000)	0	0	0	0
36,100	36,100	0	0	0	0
0	0	0	0	0	0
<u>12,100</u>	<u>12,100</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(560,621)	160,635	721,256	(26,291)	(4,131)	22,160
537,459	537,459	0	26,291	26,291	0
23,880	23,880	0	0	0	0
<u>\$718</u>	<u>\$721,974</u>	<u>\$721,256</u>	<u>\$0</u>	<u>\$22,160</u>	<u>\$22,160</u>

(continued)

City of Cortland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For The Year Ended December 31, 1999*

	<u>Capital Projects Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Property and Other Taxes	\$0	\$0	\$0
Charges for Services	0	0	0
Licenses, Permits and Fees	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	200,000	48,649	(151,351)
Interest	0	0	0
Contributions and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>200,000</u>	<u>48,649</u>	<u>(151,351)</u>
Expenditures			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	278,914	101,991	176,923
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>278,914</u>	<u>101,991</u>	<u>176,923</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(78,914)</u>	<u>(53,342)</u>	<u>25,572</u>
Other Financing Sources (Uses)			
Advances Out	0	0	0
Operating Transfers In	70,000	50,000	(20,000)
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>70,000</u>	<u>50,000</u>	<u>(20,000)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(8,914)</u>	<u>(3,342)</u>	<u>5,572</u>
<i>Fund Balances Beginning of Year</i>	8,914	8,914	0
Prior Year Encumbrances Appropriated	<u>28,853</u>	<u>28,853</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$28,853</u>	<u>\$34,425</u>	<u>\$5,572</u>

See accompanying notes to the general purpose financial statements

<u>Totals (Memorandum Only)</u>		
<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$1,699,893	\$1,696,458	(\$3,435)
42,000	37,279	(4,721)
49,217	59,969	10,752
9,500	10,132	632
650,847	579,947	(70,900)
60,000	74,874	14,874
500	310	(190)
4,775	2,368	(2,407)
<u>2,516,732</u>	<u>2,461,337</u>	<u>(55,395)</u>
807,973	436,828	371,145
1,774,202	1,282,899	491,303
15,128	11,894	3,234
380,546	203,886	176,660
52,892	37,425	15,467
39,200	464	38,736
19,600	19,280	320
278,914	101,991	176,923
40,000	40,000	0
22,800	22,800	0
<u>3,431,255</u>	<u>2,157,467</u>	<u>1,273,788</u>
<u>(914,523)</u>	<u>303,870</u>	<u>1,218,393</u>
(24,000)	(24,000)	0
106,100	86,100	(20,000)
<u>(175,000)</u>	<u>(86,100)</u>	<u>88,900</u>
<u>(92,900)</u>	<u>(24,000)</u>	<u>68,900</u>
(1,007,423)	279,870	1,287,293
954,262	954,262	0
69,453	69,453	0
<u>\$16,292</u>	<u>\$1,303,585</u>	<u>\$1,287,293</u>

City of Cortland, Ohio
*Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For The Year Ended December 31, 1999*

	<u>Enterprise</u>
Operating Revenues	
Charges for Services	\$1,263,451
Tap-In Fees	72,795
Other	84,603
<i>Total Operating Revenues</i>	<u>1,420,849</u>
Operating Expenses	
Personal Services	328,415
Contractual Services	724,615
Materials and Supplies	34,737
Depreciation	293,291
<i>Total Operating Expenses</i>	<u>1,381,058</u>
<i>Operating Income</i>	39,791
Non-Operating Revenues	
Interest	3,000
<i>Net Income</i>	42,791
<i>Retained Earnings Beginning of Year</i>	1,120,263
<i>Retained Earnings End of Year</i>	<u>1,163,054</u>
<i>Contributed Capital Beginning of Year</i>	21,508
Contributions During Year:	
Developers	407,359
<i>Contributed Capital End of Year</i>	<u>428,867</u>
<i>Total Fund Equity End of Year</i>	<u>\$1,591,921</u>

See accompanying notes to the general purpose financial statements

City of Cortland, Ohio
*Combined Statement of Revenues, Expenses and
 Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
 Proprietary Fund Type
 For The Year Ended December 31, 1999*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$1,251,000	\$1,263,930	\$12,930
Tap-In Fees	84,500	72,795	(11,705)
Other	82,500	84,603	2,103
Interest	3,000	3,000	0
<i>Total Revenues</i>	<u>1,421,000</u>	<u>1,424,328</u>	<u>3,328</u>
Expenses			
Personal Services	348,995	333,592	15,403
Contractual Services	1,039,929	724,615	315,314
Materials and Supplies	118,174	60,129	58,045
Capital Outlay	69,093	45,760	23,333
Debt Service:			
Principal Retirement	51,700	25,764	25,936
<i>Total Expenses</i>	<u>1,627,891</u>	<u>1,189,860</u>	<u>438,031</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(206,891)	234,468	441,359
Advances In	24,000	24,000	0
<i>Excess of Revenues Over (Under) Expenses and Advances</i>	(182,891)	258,468	441,359
<i>Fund Equity Beginning of Year</i>	110,890	110,890	0
Prior Year Encumbrances Appropriated	3,160	3,160	0
<i>Fund Equity (Deficit) End of Year</i>	<u>(\$68,841)</u>	<u>\$372,518</u>	<u>\$441,359</u>

See accompanying notes to the general purpose financial statements

City of Cortland, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type
For The Year Ended December 31, 1999

	<u>Enterprise</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,149,255
Cash Received from Tap-In Fees	72,795
Cash Payments to Suppliers for	
Goods and Services	(58,773)
Cash Payments for Contractual Services	(724,615)
Cash Payments for Employee Services and Benefits	(333,592)
Other Cash Receipts	84,603
	<u>189,673</u>
Cash Flows from Noncapital Financing Activities	
Advance In	24,000
	<u>24,000</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Fixed Assets	(45,760)
Principal Payments - OWDA Loans	(25,764)
	<u>(71,524)</u>
Net Cash Received from Operating Activities	
	<u>189,673</u>
Cash Flows from Investing Activities	
Interest on Investments	3,000
	<u>3,000</u>
Net Increase in Cash and Cash Equivalents	
	145,149
Cash and Cash Equivalents Beginning of Year	
	<u>348,125</u>
Cash and Cash Equivalents End of Year	
	<u>\$493,274</u>
 Reconciliation of Operating Income to Net Cash Received from Operating Activities	
<i>Operating Income</i>	\$39,791
<i>Adjustments:</i>	
Depreciation	293,291
Decrease in Accounts Receivable	119,879
Increase/(Decrease) in Liabilities:	
Accounts Payable	(239,905)
Accrued Interfund Payable	(54,582)
Accrued Wages	(1,096)
Compensated Absences Payable	1,043
Intergovernmental Payable	31,252
	<u>31,252</u>
Net Cash Received from Operating Activities	
	<u>\$189,673</u>

Non-Cash Capital Financing Activities:

During 1999, the water and sewer enterprise funds received water and sewer lines from developers valued at \$115,814 and \$291,545, respectively.

See accompanying notes to the general purpose financial statements

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

Note 1 - Description of the City and 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 Council 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 police protection, fire fighting and prevention, street maintenance and repairs, building inspection and wastewater. The operation of each of these activities is directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The Lakeview Local School District has been excluded from the reporting entity because the City is not financially accountable for this organization nor does the City approve the budget, the levying of taxes or the issuance of debt for this organization.

The City participates in the Eastgate Development and Transportation Agency and the Emergency Management Agency. These are jointly governed organizations and are presented in Note 16 of the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

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A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund This fund is used to account for the accumulations of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's enterprise fund type:

Enterprise Funds These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds.

City of Cortland, Ohio
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B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is thirty-one days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, State-levied locally shared taxes (including gasoline tax), fines and forfeitures and income tax withheld by employers.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1999, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated

City of Cortland, Ohio
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resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget At the first Council meeting in July, the Mayor presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

Appropriations A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

Encumbrances As part of formal budgetary control, purchases orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

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The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1999.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1999 amounted to \$66,712, which includes \$27,153 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Inventory

Inventories of governmental funds are stated at cost while the inventory of the proprietary funds is stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Since the inventory balance at December 31, 1999 was not significant, an amount was not reported on the combined balance sheet.

F. Fixed Assets

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group.

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

Fixed asset values were initially determined at December 31, 1996, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five hundred dollars.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's useful life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets. Depreciation of water and sewer lines and equipment in the proprietary fund types is computed using the straight-line method over the following useful lives.

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Water and Sewer Lines	50 years
Equipment	3 - 20 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 1999, interest costs incurred on construction projects in the proprietary funds were not material.

G. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements, are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

H. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty-one days after year end are considered not to have been made with current expendable available financial resources. Bonds and leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

I. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Short and Long-Term Receivables/Payables

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans are classified as "Interfund Receivables/Payables." Long-term interfund loans are classified as "Advances to Other Funds" or "Advances from Other Funds."

K. Contributed Capital

Contributed capital represents tap-in fees which exceed the cost of the physical connection to the system, resources provided from other funds of the City, other governments, and private sources to enterprise funds that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. A determination of the amount of contributed capital received prior to 1996 has not been made. Depreciation on these assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

L. Fund Equity

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

M. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances.

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The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).
4. Short-term note proceeds and note principal retirement for governmental funds and all debt principal retirement for the enterprise fund are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$152,081	\$246,951	(\$4,131)	(\$5,083)
Net Adjustment for Revenue Accruals	(5,022)	(47,396)	0	0
Unreported Cash	(124)	0		
Net Adjustment for Expenditure Accruals	(4,748)	(13,953)	0	2,386
Advance Out	0	(24,000)	0	0
Encumbrances	(15,479)	(967)	0	(645)
Budget Basis	<u>\$126,708</u>	<u>\$160,635</u>	<u>(\$4,131)</u>	<u>(\$3,342)</u>

City of Cortland, Ohio
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Net Increase/Excess of Revenues Over (Under) Expenses And Advances
 Proprietary Fund Type

	Enterprise
GAAP Basis	\$42,791
Net Adjustment for	
Revenue Accruals	479
Advances In	24,000
Net Adjustment for	
Expense Accruals	(29,213)
Principal Retirement	(25,764)
Capital Outlay	(45,760)
Depreciation	293,291
Encumbrances	(1,356)
Budget Basis	\$258,468

Note 4 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current two 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States:
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan

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Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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.

Cash on Hand At year end, the City had \$124 in undeposited cash on hand which is included on the balance sheet as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At year-end, the carrying amount of the City's deposits was \$163,950 and the bank balance was \$188,750. Of the bank balance, the entire amount was covered by federal depository insurance.

Investments The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
STAR Ohio	<u>\$1,650,000</u>

City of Cortland, Ohio
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The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$1,814,074	\$0
Investments of cash management pool:		
STAR Ohio	(1,650,000)	1,650,000
Unreported Cash	(124)	0
GASB Statement 3	\$163,950	\$1,650,000

Note 5 - Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 1999 for real and public property taxes represents collections of 1998 taxes. Property tax payments received during 1999 for tangible personal property (other than public utility property) is for 1999 taxes.

1999 real property taxes are levied after October 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 1999 real property taxes are collected in and intended to finance 2000.

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. 1999 public utility property taxes became a lien December 31, 1998, are levied after October 1, 1999, and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after October 1, 1998, on the values as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 1999, was \$20.26 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	\$88,760,950
Tangible Personal	2,909,730
Public Utility	4,537,200
Total	\$96,207,880

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Cortland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 1999. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 1999 operations. The receivable is offset by deferred revenue.

Note 6 - Receivables

Receivables at December 31, 1999, primarily consisted of accounts (billings for user charged services including unbilled utility services), intergovernmental receivables arising from grants, entitlements and shared revenues and interest on investments. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund:	
Estate Tax	\$16,846
Local Government	<u>8,530</u>
Total General Fund	<u>25,376</u>
Special Revenue Funds:	
Fire Levy	810
Street Construction, Maintenance and Repair	14,414
Permissive Tax	2,507
Federal Grant	32,279
State Highway	<u>1,169</u>
Total Special Revenue Funds	<u>51,179</u>
Total	<u><u>\$76,555</u></u>

City of Cortland, Ohio
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Note 7 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 1999.

B. Litigation

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

Note 8 - Fixed Assets

A summary of the enterprise funds' property, plant and equipment at December 31, 1999, follows:

Land	\$687
Water and Sewer Lines	5,260,576
Equipment	<u>48,927</u>
Total	5,310,190
Less: Accumulated Depreciation	<u>(3,555,733)</u>
Net Fixed Assets	<u><u>\$1,754,457</u></u>

Proprietary funds' fixed assets exclude water and sewer lines constructed prior to 1994.

A summary of changes in general fixed assets follows:

	Balance January 1, 1999	Additions	Deductions	Balance December 31, 1999
Land	\$6,476	\$0	\$0	\$6,476
Buildings	834,947	0	0	834,947
Equipment	467,654	1,600	0	469,254
Vehicles	<u>1,089,215</u>	<u>20,776</u>	<u>0</u>	<u>1,109,991</u>
Total	<u><u>\$2,398,292</u></u>	<u><u>\$22,376</u></u>	<u><u>\$0</u></u>	<u><u>\$2,420,668</u></u>

City of Cortland, Ohio
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For The Year Ended December 31, 1999

Note 9 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Enterprise Funds			
Ohio Public Works Commission			
West Main Street	0%	\$197,240	2014
North High Street	0	352,685	2018
South Mecca	0	531,178	2016
General Long Term Obligations			
General Obligation Bond:			
Municipal Building Bonds	7.125	800,000	2006

Changes in long-term obligations of the City during 1999 were as follows:

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
Enterprise Fund Obligations:				
Ohio Public Works Commission Loans				
1993 0%				
West Main Street	\$129,561	\$0	\$4,318	\$125,243
1998 0%				
North High Street	335,051	0	8,818	326,233
1995 0%				
South Mecca	416,720	0	12,628	404,092
<i>Total Enterprise Fund Obligations</i>	<u>\$881,332</u>	<u>\$0</u>	<u>\$25,764</u>	<u>\$855,568</u>
General Long-Term Obligations:				
General Obligation Bonds				
1996 7.125%				
Municipal Building	360,000	0	40,000	320,000
Capital Lease	43,300	0	13,581	29,719
Compensated Absences	39,349	0	6,371	32,978
Intergovernmental Payable	38,173	39,692	38,173	39,692
<i>Total General Long-Term Obligations</i>	<u>480,822</u>	<u>39,692</u>	<u>98,125</u>	<u>422,389</u>
<i>Total All Types</i>	<u>\$1,362,154</u>	<u>\$39,692</u>	<u>\$123,889</u>	<u>\$1,277,957</u>

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

OPWC loans will be paid from sewer enterprise fund user service charges. General obligation bonds will be paid from the proceeds of property tax. Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases were paid from the special revenue fund. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee is paid.

The City's overall legal debt margin was \$9,781,827 at December 31, 1999. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999, are as follows:

	Ohio Public Works Commission	General Obligation Bonds
2000	\$77,291	\$59,950
2001	51,527	57,100
2002	51,527	54,250
2003	51,527	51,400
2004	51,527	48,552
2005-2009	257,635	88,548
2010-2014	257,635	0
2015-2017	56,899	0
Totals	\$855,568	\$359,800

Note 10 - 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 hired before January 1, 1990, can be paid a maximum of 960 hours of accumulated, unused sick leave. Employees hired after January 1, 1990, can be paid a maximum of 650 hours. As of December 31, 1999, the liability for unpaid compensated absences was \$54,624 for the entire City.

Note 11 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All City full-time employees, other than Police and Firemen, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 9.35 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1999, 1998 and 1997 were \$42,864, \$46,784, and \$44,719 respectively. The full amount has

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

been contributed for 1998 and 1997. 72.68 percent has been contributed for 1999 with the remainder being reported as a liability within the enterprise funds and the general long-term obligations account group.

B. Police and Firemen's Disability And Pension

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by PFDPF's Board of Trustees. PFDPF provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. PFDPF issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12.50 percent for police and 17 percent for firefighters. For 1998, the City contributions were 13 percent for police and 17 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$39,376 and \$48,078 for the year ended December 31, 1999, \$58,816 and \$62,967 for 1998 and \$57,954 and \$54,827 for 1997. The full amount has been contributed for 1998 and 1997. 71.82 and 74.60 percent, respectively, have been contributed for 1999 with the remainder being reported as a liability within the general long-term obligations account group.

Note 12 - Postemployment Benefits

A. Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care.

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,286,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062. The City's actual contributions for 2000 which were used to fund OPEB were \$19,255.

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equaled 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health coverage.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

B. Police and Firemen's Disability Pension Fund

The Police and Firemen's Disability and Pension Fund (the "Fund") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7 percent of covered payroll was applied to the postemployment health care program during 1999. For 1998, the percent used to fund healthcare was 6.5 percent. This allocation will be raised to 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 1999 that were used to fund postemployment benefits were \$22,051 for police and \$19,797 for fire. PFDPF's total health care expenses for the year ending December 31, 1998, (the latest information available) were \$78,596,790, which was net of member contributions of \$5,331,515. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1998, was 11,424 for police and 9,186 for firefighters.

Note 13 - 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 1999, the City contracted with several companies for various types of insurance as follows:

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

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

Note 14 - Segment Information

The City's enterprise funds account for the provision of sewer and water services. The table below reflects, in a summarized format, the more significant data relating to the enterprise funds of the City of Cortland as of and for the year ended December 31, 1999:

	Sewer Fund	Water Fund	Total
Operating Revenues	\$1,032,662	\$388,187	\$1,420,849
Depreciation	181,840	111,451	293,291
Operating Income (Loss)	50,608	(10,817)	39,791
Net Income (Loss)	53,608	(10,817)	42,791
Net Working Capital	516,395	190,997	707,392
Total Assets	1,715,058	798,895	2,513,953
Long-Term Liabilities	535,815	334,113	869,928
Fixed Asset Additions	291,545	161,574	453,119
Current Capital Contributions	291,545	115,814	407,359
Total Equity	1,136,580	455,341	1,591,921
Encumbrances	1,009	347	1,356

Note 15 - Interfund Transactions

Advances to other funds/Advances from other funds balances at December 31, 1999, consist of \$48,000 owed to the sewer enterprise fund by the police levy special revenue fund.

Note 16 - Jointly Governed Organizations

A. Eastgate Development and Transportation Agency

The Eastgate Development and Transportation Agency (EDATA) is a jointly governed organization that is committed to foster cooperated regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representative from Trumbull County, Mahoning County, township trustees and participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each agency. Funding comes from each of the participants. For 1999, the City contributed \$1,757 to the Eastgate Development and Transportation Agency.

City of Cortland, Ohio
Notes to The General Purpose Financial Statements
For The Year Ended December 31, 1999

B. Emergency Management Agency

The Emergency Management Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County. The eight members of the advisory board are appointed by the thirty-four member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hires and fires its own staff. Funding comes from each of the participants. For 1999, the City contributed \$1,190 to the Emergency Management Agency.

Note 17 - Capital Leases

During 1998, the City entered into a lease agreement for a vehicle which is accounted for on a GAAP basis as a security of persons and property expenditure in the Police Levy Special Revenue Fund, with an offsetting amount reported as an other financing source. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the general purpose financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

<u>Year</u>	<u>General Long-Term Obligation</u>
2000	\$16,244
2001	<u>16,244</u>
Total minimum lease payments	32,488
Less: Amount representing interest	<u>(2,769)</u>
Present value of minimum lease payments	<u><u>\$29,719</u></u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Members of City Council
City of Cortland
400 North High Street
Cortland, Ohio 44410

We have audited the general-purpose financial statements of the City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 1999, and have issued our report thereon dated June 20, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 20, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Jim Petro
Auditor of State

June 20, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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CITY OF CORTLAND

TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 24, 2001**