



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, Ohio 44410

To The Members of 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, 2010, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, Ohio, as of December 31, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2011, 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

July 7, 2011

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
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, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- This is the City of Cortland's seventh publication of financial statements under the new GASB 34 reporting model.
- During 2010, the City received new OPWC monies for two water projects as well as a new OWDA loan for the Willow water storage tank.
- Overall, governmental activities expenses decreased as a result of diligent financial management. 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 the Willow elevated water storage tank and improvements to roads.

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 2010?" 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
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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 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and Other Assets	\$4,800,182	\$4,818,179	\$1,298,457	\$1,405,405	\$6,098,639	\$6,223,584
Capital Assets, Net	4,004,749	3,806,546	10,395,048	9,238,303	14,399,797	13,044,849
Total Assets	8,804,931	8,624,725	11,693,505	10,643,708	20,498,436	19,268,433
Liabilities						
Current Liabilities	2,498,730	2,457,843	89,987	52,947	2,588,717	2,510,790
Long-Term Liabilities						
Due Within One Year	47,815	38,377	144,620	90,576	192,435	128,953
Due in More Than One Year	209,611	224,466	2,475,689	1,019,144	2,685,300	1,243,610
Total Liabilities	2,756,156	2,720,686	2,710,296	1,162,667	5,466,452	3,883,353
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,004,749	3,806,546	7,835,164	8,183,201	11,839,913	11,989,747
Restricted for:						
Capital Projects	177,906	195,993	0	0	177,906	195,993
Police	108,847	134,327	0	0	108,847	134,327
Fire	408,971	476,713	0	0	408,971	476,713
Street Construction, Maintenance and Repair	414,882	386,096	0	0	414,882	386,096
Other Purposes	89,871	112,670	0	0	89,871	112,670
Unrestricted	843,549	791,694	1,148,045	1,297,840	1,991,594	2,089,534
Total Net Assets	\$6,048,775	\$5,904,039	\$8,983,209	\$9,481,041	\$15,031,984	\$15,385,080

For the City, total net assets for governmental activities slightly increased. A major component of the City's assets is capital assets. For 2010, the City's net capital assets increased due to a number road projects completed during the year. 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, 2010
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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 funding as well as the new OWDA loan.

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 2010 compared to 2009.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues						
Charges for Services	\$410,470	\$454,064	\$1,343,937	\$1,382,955	\$1,754,407	\$1,837,019
Operating Grants and Contributions	689,185	1,065,528	0	0	689,185	1,065,528
Capital Grants	123,844	85,269	0	0	123,844	85,269
Total Program Revenues	1,223,499	1,604,861	1,343,937	1,382,955	2,567,436	2,987,816
General Revenues						
Property Taxes	2,167,151	2,148,803	0	0	2,167,151	2,148,803
Grants and Entitlements	342,638	304,423	0	0	342,638	304,423
Investment Earnings	25,534	24,132	0	0	25,534	24,132
Other	21,284	124,236	13,105	14,974	34,389	139,210
Total General Revenues	2,556,607	2,601,594	13,105	14,974	2,569,712	2,616,568
Total Revenues	3,780,106	4,206,455	1,357,042	1,397,929	5,137,148	5,604,384
Program Expenses						
General Government	670,820	1,249,428	0	0	670,820	1,249,428
Security of Persons and Property	2,510,456	2,238,675	0	0	2,510,456	2,238,675
Public Health and Welfare	0	11,667	0	0	0	11,667
Leisure Time Activities	30,237	28,667	0	0	30,237	28,667
Community Environment	52,122	40,966	0	0	52,122	40,966
Transportation	371,735	375,668	0	0	371,735	375,668
Basic Utility Services	0	9,709	0	0	0	9,709
Water	0	0	745,615	746,123	745,615	746,123
Sewer	0	0	1,109,259	943,022	1,109,259	943,022
Total Program Expenses	3,635,370	3,954,780	1,854,874	1,689,145	5,490,244	5,643,925
Increase (Decrease) in Net Assets	144,736	251,675	(497,832)	(291,216)	(353,096)	(39,541)
Net Assets Beginning of Year	5,904,039	5,652,364	9,481,041	9,772,257	15,385,080	15,424,621
Net Assets End of Year	\$6,048,775	\$5,904,039	\$8,983,209	\$9,481,041	\$15,031,984	\$15,385,080

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Governmental Activities

For governmental activities, there was a substantial decrease in revenues. This was mostly due to the decrease in program revenues for 2010 in operating and capital grants. The City's overall general revenues saw a slight decrease, however, property taxes saw an increase. 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 will be on the ballot for renewal, 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 the above table also shows that program expenses decreased from 2009 levels. This decrease is a result of the City being more conservative in their spending in efforts to reduce costs.

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 8 full-time, 7 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 departments responds to nearly 900 emergencies each year. The department is staffed by 10 full-time and 17 part-time employees. The full time daily staff of three IAFF firefighter / Paramedics, is supplemented by part time and volunteer crews.

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
	2010	2009	2010	2009
General Government	\$670,820	\$1,249,428	(\$539,982)	(\$639,448)
Security of Persons and Property	2,510,456	2,238,675	(1,947,526)	(1,675,647)
Public Health and Welfare	0	11,667	0	(9,845)
Leisure Time Activities	30,237	28,667	(28,013)	(24,241)
Community Environment	52,122	40,966	(42,107)	(32,379)
Transportation	371,735	375,668	140,368	37,906
Basic Utility Services	0	9,709	5,389	(6,265)
Total	\$3,635,370	\$3,954,780	(\$2,411,871)	(\$2,349,919)

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Business-Type Activities

Business-type activities include the City's water and sewer operations. In 2010, charges for services continued to be the major revenue source for business-type activities and they decreased slightly during the 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 on page 16 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 an increase in fund balance due to a decrease in expenditures in all departments. The policy levy and fire levy special revenue funds both saw decreases in fund balance. Decreases in most revenues were offset by an increase in property taxes. However, this increase did not cover an increase in expenditures.

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 2010, 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 other revenue 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 the 2010. 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
For the Year Ended December 31, 2010
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Capital Assets and Debt Administration

Capital Assets

Table 4 shows 2010 balances of capital assets as compared to 2009.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements	397,698	414,643	0	0	397,698	414,643
Furniture, Fixtures and Equipment	244,662	254,399	53,316	60,283	297,978	314,682
Vehicles	271,421	336,311	18,840	26,472	290,261	362,783
Infrastructure	3,073,392	2,783,617	10,277,805	9,106,461	13,351,197	11,890,078
Total Capital Assets	\$4,004,749	\$3,806,546	\$10,395,048	\$9,238,303	\$14,399,797	\$13,044,849

For 2010, the primary additions for governmental activities included a new thermal imaging camera for the fire department and a new mower with deck and snow blower attachments in the service department. Additions to infrastructure included improvements to roads, new storm sewers, curbs and sidewalks. The City disposed of two vehicles during 2010.

The primary addition for the business-type activities was the construction and completion of the Willow elevated tank. The sewer fund also purchased a transporter for use with the City's closed circuit television camera for inspecting larger diameter sanitary and sewer pipes. The water and sewer fund also disposed of two vehicles during 2010.

Additional information concerning the City's capital assets can be found in Note 11 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	
	2010	2009	2010	2009	2010	2009
OPWC Loans	\$0	\$0	\$1,871,006	\$1,055,102	\$1,871,006	\$1,055,102
OWDA Loans	0	0	688,878	0	688,878	0
Compensated Absences	257,426	262,843	60,425	54,618	317,851	317,461
Total	\$257,426	\$262,843	\$2,620,309	\$1,109,720	\$2,877,735	\$1,372,563

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

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 2010, the City entered into one new OWDA loan.

Additional information concerning debt issuances can be found in Note 12 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, 2010*

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,866,005	\$1,029,881	\$2,895,886
Accrued Interest Receivable	9	0	9
Accounts Receivable	53,797	258,678	312,475
Intergovernmental Receivable	446,303	0	446,303
Prepaid Items	22,613	9,898	32,511
Property Taxes Receivable	2,411,455	0	2,411,455
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	3,987,173	10,349,961	14,337,134
<i>Total Assets</i>	8,804,931	11,693,505	20,498,436
Liabilities			
Accounts Payable	5,921	3,789	9,710
Accrued Wages	42,424	9,177	51,601
Contracts Payable	5,781	15,972	21,753
Intergovernmental Payable	159,768	61,049	220,817
Deferred Revenue	2,284,836	0	2,284,836
Long-Term Liabilities:			
Due Within One Year	47,815	144,620	192,435
Due In More Than One Year	209,611	2,475,689	2,685,300
<i>Total Liabilities</i>	2,756,156	2,710,296	5,466,452
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,004,749	7,835,164	11,839,913
Restricted for:			
Capital Projects	177,906	0	177,906
Police	108,847	0	108,847
Fire	408,971	0	408,971
Street Construction, Maintenance and Repair	414,882	0	414,882
Other Purposes	89,871	0	89,871
Unrestricted	843,549	1,148,045	1,991,594
<i>Total Net Assets</i>	\$6,048,775	\$8,983,209	\$15,031,984

See accompanying notes to the basic financial statements.

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$670,820	\$126,613	\$4,225	\$0
Security of Persons and Property	2,510,456	266,229	296,701	0
Public Health and Welfare	0	0	0	0
Leisure Time Activities	30,237	2,224	0	0
Community Environment	52,122	10,015	0	0
Transportation	371,735	0	388,259	123,844
Basic Utility Services	0	5,389	0	0
<i>Total Governmental Activities</i>	<u>3,635,370</u>	<u>410,470</u>	<u>689,185</u>	<u>123,844</u>
Business-Type Activities:				
Water	745,615	661,696	0	0
Sewer	1,109,259	682,241	0	0
<i>Total Business-Type Activities</i>	<u>1,854,874</u>	<u>1,343,937</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$5,490,244</u></u>	<u><u>\$1,754,407</u></u>	<u><u>\$689,185</u></u>	<u><u>\$123,844</u></u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Police Levy

 Fire Levy

Grants and Entitlements not Restricted
to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$539,982)	\$0	(\$539,982)
(1,947,526)	0	(1,947,526)
0	0	0
(28,013)	0	(28,013)
(42,107)	0	(42,107)
140,368	0	140,368
5,389	0	5,389
(2,411,871)	0	(2,411,871)
0	(83,919)	(83,919)
0	(427,018)	(427,018)
0	(510,937)	(510,937)
(2,411,871)	(510,937)	(2,922,808)
499,470	0	499,470
795,523	0	795,523
872,158	0	872,158
342,638	0	342,638
25,534	0	25,534
21,284	13,105	34,389
2,556,607	13,105	2,569,712
144,736	(497,832)	(353,096)
5,904,039	9,481,041	15,385,080
<u>\$6,048,775</u>	<u>\$8,983,209</u>	<u>\$15,031,984</u>

City of Cortland, Ohio

Balance Sheet

Governmental Funds

December 31, 2010

	<u>General</u>	<u>Police Levy</u>	<u>Fire Levy</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$756,863	\$169,408	\$414,467
Receivables:			
Taxes	549,988	937,099	924,368
Accounts	577	0	53,100
Accrued Interest	9	0	0
Intergovernmental Receivable	126,861	61,648	68,749
Prepaid Items	8,382	4,949	8,075
<i>Total Assets</i>	<u>\$1,442,680</u>	<u>\$1,173,104</u>	<u>\$1,468,759</u>
Liabilities			
Accounts Payable	\$1,223	\$2,529	\$345
Accrued Wages	6,644	15,087	18,399
Contracts Payable	498	5,283	0
Intergovernmental Payable	34,023	52,205	68,601
Deferred Revenue	646,583	998,747	993,117
<i>Total Liabilities</i>	<u>688,971</u>	<u>1,073,851</u>	<u>1,080,462</u>
Fund Balances			
Reserved for Encumbrances	0	2,151	0
Unreserved:			
Undesignated, Reported in:			
General Fund	753,709	0	0
Special Revenue Funds	0	97,102	388,297
Capital Projects Funds	0	0	0
<i>Total Fund Balances</i>	<u>753,709</u>	<u>99,253</u>	<u>388,297</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,442,680</u>	<u>\$1,173,104</u>	<u>\$1,468,759</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, 2010*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$1,789,886
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$525,267	\$1,866,005	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,004,749
0	2,411,455		
120	53,797		
0	9	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
189,045	446,303	Property Taxes	126,619
1,207	22,613	Intergovernmental	384,947
		Total	511,566
<u>\$715,639</u>	<u>\$4,800,182</u>		
		Long-term liabilities, such as compensated absences, are not due and payable in the current period and are therefore not reported in the funds.	<u>(257,426)</u>
\$1,824	\$5,921		
2,294	42,424		
0	5,781		
4,939	159,768		
157,955	2,796,402		
		<i>Net Assets of Governmental Activities</i>	<u><u>\$6,048,775</u></u>
167,012	3,010,296		
0	2,151		
0	753,709		
370,721	856,120		
177,906	177,906		
<u>548,627</u>	<u>1,789,886</u>		
<u>\$715,639</u>	<u>\$4,800,182</u>		

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Police Levy	Fire Levy
Revenues			
Property Taxes	\$501,510	\$793,240	\$875,602
Charges for Services	9,179	0	258,316
Licenses and Permits	136,080	0	0
Fines and Forfeitures	4,014	0	0
Intergovernmental	348,021	110,854	126,939
Interest	22,853	0	0
Contributions and Donations	0	25	25
Other	7,228	12,927	1,123
<i>Total Revenues</i>	<u>1,028,885</u>	<u>917,046</u>	<u>1,262,005</u>
Expenditures			
Current:			
General Government	777,362	0	0
Security of Persons and Property	45,671	959,132	1,240,758
Leisure Time Activities	13,610	0	0
Community Environment	47,319	0	0
Transportation	0	0	0
Basic Utility Services	29,590	0	0
<i>Total Expenditures</i>	<u>913,552</u>	<u>959,132</u>	<u>1,240,758</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>115,333</u>	<u>(42,086)</u>	<u>21,247</u>
Other Financing Sources (Uses)			
Transfers In	0	0	0
Transfers Out	(56,000)	0	(80,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(56,000)</u>	<u>0</u>	<u>(80,000)</u>
<i>Net Change in Fund Balance</i>	59,333	(42,086)	(58,753)
<i>Fund Balances Beginning of Year</i>	<u>694,376</u>	<u>141,339</u>	<u>447,050</u>
<i>Fund Balances End of Year</i>	<u><u>\$753,709</u></u>	<u><u>\$99,253</u></u>	<u><u>\$388,297</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, 2010*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$61,444)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$2,170,352	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.	
2,430	269,925	Capital Outlay	621,671
0	136,080	Depreciation	<u>(423,468)</u>
451	4,465		
564,042	1,149,856	Total	198,203
2,681	25,534	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	50	Property Taxes	(3,201)
6	21,284	Intergovernmental	<u>5,761</u>
569,610	3,777,546	Total	2,560
		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>5,417</u>
		<i>Change in Net Assets of Governmental Activities</i>	<u>\$144,736</u>
37,287	814,649		
193,775	2,439,336		
16,627	30,237		
4,803	52,122		
473,056	473,056		
0	29,590		
725,548	3,838,990		
(155,938)	(61,444)		
136,000	136,000		
0	(136,000)		
136,000	0		
(19,938)	(61,444)		
568,565	1,851,330		
\$548,627	\$1,789,886		

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$502,862	\$502,862	\$501,510	(\$1,352)
Charges for Services	13,500	13,500	14,305	805
Licenses and Permits	130,700	130,700	136,080	5,380
Fines and Forfeitures	4,000	4,000	3,883	(117)
Intergovernmental	281,039	371,039	374,646	3,607
Interest	25,000	25,000	24,179	(821)
Other	18,650	18,650	7,228	(11,422)
<i>Total Revenues</i>	<u>975,751</u>	<u>1,065,751</u>	<u>1,061,831</u>	<u>(3,920)</u>
Expenditures				
Current:				
General Government	1,313,429	1,340,675	774,896	565,779
Security of Persons and Property	49,463	50,500	45,671	4,829
Leisure Time Activities	37,513	38,300	13,610	24,690
Community Environment	47,945	48,950	46,787	2,163
Basic Utility Services	187,175	191,100	32,980	158,120
<i>Total Expenditures</i>	<u>1,635,525</u>	<u>1,669,525</u>	<u>913,944</u>	<u>755,581</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(659,774)	(603,774)	147,887	751,661
Other Financing Uses				
Transfers Out	<u>0</u>	<u>(56,000)</u>	<u>(56,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(659,774)	(659,774)	91,887	751,661
<i>Fund Balance Beginning of Year</i>	645,597	645,597	645,597	0
Prior Year Encumbrances Appropriated	<u>14,177</u>	<u>14,177</u>	<u>14,177</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$751,661</u></u>	<u><u>\$751,661</u></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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$800,648	\$800,648	\$793,240	(\$7,408)
Intergovernmental	110,000	110,000	110,854	854
Contributions and Donations	0	0	25	25
Other	10,000	10,000	12,927	2,927
<i>Total Revenues</i>	920,648	920,648	917,046	(3,602)
Expenditures				
Current:				
Security of Persons and Property	1,136,900	1,136,900	966,444	170,456
<i>Net Change in Fund Balance</i>	(216,252)	(216,252)	(49,398)	166,854
<i>Fund Balance Beginning of Year</i>	216,252	216,252	216,252	0
Prior Year Encumbrances Appropriated	403	403	403	0
<i>Fund Balance End of Year</i>	<u>\$403</u>	<u>\$403</u>	<u>\$167,257</u>	<u>\$166,854</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$884,264	\$884,264	\$875,602	(\$8,662)
Charges for Services	270,000	270,000	287,695	17,695
Intergovernmental	100,000	125,000	126,939	1,939
Contributions and Donations	0	0	25	25
Other	5,000	5,000	1,123	(3,877)
<i>Total Revenues</i>	1,259,264	1,284,264	1,291,384	7,120
Expenditures				
Current:				
Security of Persons and Property	1,639,166	1,639,166	1,244,643	394,523
<i>Excess of Revenues Over (Under) Expenditures</i>	(379,902)	(354,902)	46,741	401,643
Other Financing Uses				
Transfers Out	(55,000)	(80,000)	(80,000)	0
<i>Net Change in Fund Balance</i>	(434,902)	(434,902)	(33,259)	401,643
<i>Fund Balance Beginning of Year</i>	434,902	434,902	434,902	0
Prior Year Encumbrances Appropriated	12,824	12,824	12,824	0
<i>Fund Balance End of Year</i>	\$12,824	\$12,824	\$414,467	\$401,643

See accompanying notes to the basic financial statements.

City of Cortland, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2010

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$384,396	\$645,485	\$1,029,881
Accounts Receivable	129,307	129,371	258,678
Prepaid Items	4,949	4,949	9,898
<i>Total Current Assets</i>	<u>518,652</u>	<u>779,805</u>	<u>1,298,457</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	5,231,927	5,118,034	10,349,961
<i>Total Noncurrent Assets</i>	<u>5,276,327</u>	<u>5,118,721</u>	<u>10,395,048</u>
<i>Total Assets</i>	<u>5,794,979</u>	<u>5,898,526</u>	<u>11,693,505</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	2,922	867	3,789
Accrued Wages	4,395	4,782	9,177
Contracts Payable	15,972	0	15,972
Intergovernmental Payable	11,012	50,037	61,049
Compensated Absences Payable	4,304	4,304	8,608
OPWC Loans Payable	102,119	33,893	136,012
<i>Total Current Liabilities</i>	<u>140,724</u>	<u>93,883</u>	<u>234,607</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	30,314	21,503	51,817
OPWC Loans Payable	1,629,324	105,670	1,734,994
OWDA Loans Payable	688,878	0	688,878
<i>Total Long-Term Liabilities</i>	<u>2,348,516</u>	<u>127,173</u>	<u>2,475,689</u>
<i>Total Liabilities</i>	<u>2,489,240</u>	<u>221,056</u>	<u>2,710,296</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,856,006	4,979,158	7,835,164
Unrestricted	449,733	698,312	1,148,045
<i>Total Net Assets</i>	<u>\$3,305,739</u>	<u>\$5,677,470</u>	<u>\$8,983,209</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, 2010*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$661,696	\$681,251	\$1,342,947
Tap-In Fees	0	990	990
Other	7,265	5,840	13,105
<i>Total Operating Revenues</i>	<u>668,961</u>	<u>688,081</u>	<u>1,357,042</u>
Operating Expenses			
Personal Services	276,349	289,293	565,642
Materials and Supplies	66,561	26,455	93,016
Contractual Services	175,047	613,024	788,071
Depreciation	157,395	180,487	337,882
<i>Total Operating Expenses</i>	<u>675,352</u>	<u>1,109,259</u>	<u>1,784,611</u>
<i>Operating Loss</i>	(6,391)	(421,178)	(427,569)
Non-Operating Expenses			
Interest and Fiscal Charges	(70,263)	0	(70,263)
<i>Change in Net Assets</i>	(76,654)	(421,178)	(497,832)
<i>Net Assets Beginning of Year</i>	<u>3,382,393</u>	<u>6,098,648</u>	<u>9,481,041</u>
<i>Net Assets End of Year</i>	<u><u>\$3,305,739</u></u>	<u><u>\$5,677,470</u></u>	<u><u>\$8,983,209</u></u>

See accompanying notes to the basic financial statements.

City of Cortland, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2010

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$691,765	\$715,192	\$1,406,957
Tap In Fees	0	990	990
Other Operating Revenues	7,265	5,840	13,105
Cash Payments to Suppliers for Materials and Supplies	(66,937)	(26,861)	(93,798)
Cash Payments for Employee Services and Benefits	(275,514)	(288,697)	(564,211)
Cash Payments for Contractual Services	(157,518)	(590,359)	(747,877)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>199,061</u>	<u>(183,895)</u>	<u>15,166</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(1,489,630)	(4,997)	(1,494,627)
OPWC Loans Issued	908,012	0	908,012
OWDA Loans Issued	688,878	0	688,878
Principal Paid on OPWC Loans	(58,221)	(33,887)	(92,108)
Interest Paid on OWDA Loans	(70,263)	0	(70,263)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(21,224)</u>	<u>(38,884)</u>	<u>(60,108)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	177,837	(222,779)	(44,942)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>206,559</u>	<u>868,264</u>	<u>1,074,823</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$384,396</u></u>	<u><u>\$645,485</u></u>	<u><u>\$1,029,881</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities			
Operating Loss	(6,391)	(\$421,178)	(\$427,569)
Adjustments:			
Depreciation	157,395	180,487	337,882
(Increase) Decrease in Assets:			
Accounts Receivable	30,069	33,941	64,010
Prepaid Items	(1,002)	(1,002)	(2,004)
Increase (Decrease) in Liabilities:			
Accounts Payable	2,546	(16,114)	(13,568)
Accrued Wages	343	763	1,106
Contracts Payable	15,689	0	15,689
Compensated Absences Payable	3,165	2,642	5,807
Intergovernmental Payable	(2,753)	36,566	33,813
<i>Total Adjustments</i>	<u>205,452</u>	<u>237,283</u>	<u>442,735</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$199,061</u></u>	<u><u>(\$183,895)</u></u>	<u><u>\$15,166</u></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, 2010

Note 1 - Reporting Entity

The City of Cortland (the “City”) was incorporated under the laws of the State of Ohio in 1852, and adopted its first charter in 1981. The Charter provides for a Mayor-Council form of government. The Mayor is elected for a four-year term and the seven Council Members are elected at large for four year staggered terms.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Cortland, this includes the agencies and departments that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, water and wastewater treatment. The operation of each of these activities is directly controlled by Council through the budgetary process.

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

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

The City participates in the Eastgate Regional Council of Governments and the Emergency Management Agency. These are jointly governed organizations and are presented in Note 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

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, 2010

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

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

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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

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

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

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

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

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.

City of Cortland, Ohio
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For the Year Ended December 31, 2010

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

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

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance 2011 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 2010, 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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2010.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2010 amounted to \$22,853 which includes \$16,179 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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, 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

City of Cortland, Ohio
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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 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 Reserves

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

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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.

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

City of Cortland, Ohio
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For the Year Ended December 31, 2010

resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. For all funds, council appropriations are made to the fund, department and category level (object – personal service) for each fund. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within funds (except the general fund) and within departments within the general fund has been given to the Director of Finance.

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

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

Note 3 – Change in Accounting Principles

For fiscal year 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”. GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City’s financial statements.

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received and not reported by the City on the operating statements (budget), but reported on the GAAP basis operating statements.

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

	Net Change in Fund Balances		
	General	Police Levy	Fire Levy
GAAP Basis	\$59,333	(\$42,086)	(\$58,753)
Net Adjustments for			
Revenue Accruals	34,252	0	29,379
Beginning Unrecorded Cash	(6,143)	0	0
Ending Unrecorded Cash	4,837	0	0
Net Adjustments for			
Expenditure Accruals	(392)	(5,161)	(3,885)
Encumbrances	0	(2,151)	0
Budget Basis	\$91,887	(\$49,398)	(\$33,259)

Note 5 - Deposits and Investments

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

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

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

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

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

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

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

City of Cortland, Ohio
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For the Year Ended December 31, 2010

Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2010, the carrying amount of all City deposits was \$2,888,317. At year end, \$1,815,116 of the City's bank balance of \$2,578,216 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Investments

At December 31, 2010, the City had an investment with STAR Ohio. The fair value of this investment was \$400,136 and had an average maturity of 58 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 6 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The full tax rate for all City operations for the year ended December 31, 2010, was \$19.16 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$119,468,640
Other Real Estate	20,931,410
Tangible Personal Property	
Public Utility	1,660,660
Total Assessed Values	\$142,060,710

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Cortland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the general fund, police levy fund and the fire levy fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue while the remainder of the receivable is deferred.

Note 7 - Receivables

Receivables at December 31, 2010, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services) and intergovernmental receivables arising from grants, entitlements and shared revenues and interest on investments.

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

A summary of the principal items of intergovernmental receivables follows:

	Amount
Homestead and Rollback	\$156,536
Gasoline Tax	133,318
Local Government	59,698
Auto License	55,727
Estate Tax	26,291
Tangible Personal Property	
Tax Loss Reimbursement	14,733
Total	\$446,303

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 8 - 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, 2010.

Litigation

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

Note 9 – Interfund Transfers

The general fund transferred \$56,000 to the parks and recreation capital projects fund and the fire levy special revenue fund transferred \$80,000 to the fire improvement capital projects fund to provide additional resources for current operations.

Note 10 - 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 2010, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10
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	695,167	37,933	0	733,100
Vehicles	1,110,970	0	(13,190)	1,097,780
Infrastructure:				
Roads	2,613,722	328,858	0	2,942,580
Storm Sewers	677,817	82,290	0	760,107
Sidewalks	96,796	143,388	0	240,184
Curbs	246,949	29,202	0	276,151
Total capital assets being depreciated	6,411,093	621,671	(13,190)	7,019,574
Accumulated depreciation				
Buildings and Improvements	(555,029)	(16,945)	0	(571,974)
Furniture, Fixtures and Equipment	(440,768)	(47,670)	0	(488,438)
Vehicles	(774,659)	(64,890)	13,190	(826,359)
Infrastructure:				
Roads	(768,741)	(267,950)	0	(1,036,691)
Storm Sewers	(57,205)	(15,202)	0	(72,407)
Sidewalks	(8,630)	(5,288)	0	(13,918)
Curbs	(17,091)	(5,523)	0	(22,614)
Total accumulated depreciation	(2,622,123)	(423,468) *	13,190	(3,032,401)
Capital assets being depreciated, net	3,788,970	198,203	0	3,987,173
Governmental activities capital assets, net	\$3,806,546	\$198,203	\$0	\$4,004,749

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10
Business type Activities:				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Capital assets being depreciated				
Furniture, Fixtures and Equipment	178,504	4,997	0	183,501
Vehicles	131,361	0	(13,190)	118,171
Infrastructure:				
Water Lines	6,148,749	1,489,630	0	7,638,379
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	15,608,189	1,494,627	(13,190)	17,089,626
Accumulated depreciation				
Furniture, Fixtures and Equipment	(118,221)	(11,964)	0	(130,185)
Vehicles	(104,889)	(7,632)	13,190	(99,331)
Infrastructure:				
Water Lines	(2,293,876)	(147,820)	0	(2,441,696)
Sewer Lines	(3,897,987)	(170,466)	0	(4,068,453)
Total accumulated depreciation	(6,414,973)	(337,882)	13,190	(6,739,665)
Capital assets being depreciated, net	9,193,216	1,156,745	0	10,349,961
Business type Activities capital assets, net	\$9,238,303	\$1,156,745	\$0	\$10,395,048

* Depreciation expense was charged to governmental activities as follows:

General Government	\$28,706
Security of Persons and Property	92,321
Transportation	287,239
Basic Utility Services	15,202
Total	<u>\$423,468</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
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
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	688,878	2031

Changes in long-term obligations of the City during 2010 were as follows:

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
West Main Street	\$34,545	\$0	\$8,633	\$25,912	\$8,637
North High Street	141,076	0	17,636	123,440	17,634
South Mecca	138,905	0	25,254	113,651	25,256
Southern Waterline	287,788	0	16,445	271,343	16,445
North High Street II	375,193	107,607	24,140	458,660	24,140
Willow Park Tank Replacement	77,595	800,405	0	878,000	43,900
<i>Total OPWC Loans</i>	1,055,102	908,012	92,108	1,871,006	136,012
Ohio Water Development Authority Loan					
Water Storage Tank	0	688,878	0	688,878	0
Compensated Absences	54,618	16,341	10,534	60,425	8,608
<i>Total Business Type Activities</i>	\$1,109,720	\$1,613,231	\$102,642	\$2,620,309	\$144,620
Governmental Type Activities					
Compensated Absences	\$262,843	\$32,960	\$38,377	\$257,426	\$47,815

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. 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 \$14,916,375 at December 31, 2010. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010, are as follows:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Business Type Activities

Year	OPWC Loans Principal
2011	\$136,012
2012	136,012
2013	136,013
2014	127,375
2015	114,746
2016-2020	457,695
2021-2025	422,425
2026-2030	340,728
Total	\$1,871,006

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 \$688,878.

Note 13 - Compensated Absences

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

Note 14 - Defined Benefit Pension Plans

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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions 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 and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 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 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 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 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. 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, 2010, 2009 and 2008 were \$53,740, \$61,449 and \$60,755, respectively; For 2010, 89.52 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were \$2,592 made by the City and \$1,851 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 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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

firefighters. The City's contributions to OP&F for police and firefighters pension were \$63,303 and \$88,210 for the year ended December 31, 2010, \$62,281 and \$86,785 for the year ended December 31, 2009, and \$62,875 and \$85,214 for the year ended December 31, 2008, respectively. For 2010, 74.53 percent for police and 70.99 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

Note 15 - 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 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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code 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 and public safety employer units.

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 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

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, 2010, 2009 and 2008 were \$30,637, \$44,432 and \$60,755, respectively. For 2010, 89.52 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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 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 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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, 2010, 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 \$33,513 and \$34,517 for the year ended December 31, 2010, \$32,972 and \$33,959 for the year ended December 31, 2009, and \$33,287 and \$33,345 for the year ended December 31, 2008. For 2010, 74.53 percent has been contributed for police and 70.99 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

Note 16 - 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 2010, the City contributed \$9,633 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 2010, the City contributed \$1,434 to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.

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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, Ohio 44410

To The Members of 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 City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and timely corrected.

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

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 7, 2011.

We intend this report solely for the information and use of the management, 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 style with a large, looping initial "D".

Dave Yost
Auditor of State

July 7, 2011



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
AUGUST 23, 2011**