



Dave Yost • Auditor of State



**CITY OF CORTLAND  
TRUMBULL COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Position .....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet –Governmental Funds .....	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual - General Fund .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual – Police Levy Fund.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual– Fire Levy Fund .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual– Street Construction, Maintenance and Repair Fund .....	21
Statement of Fund Net Position-Enterprise Funds .....	22
Statement of Revenues, Expenses, and Changes in Fund Net Position - Enterprise Funds.....	23
Statement of Cash Flows - Enterprise Funds .....	24
Notes to the Basic Financial Statements .....	25
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	49
Schedule of Findings .....	51

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

### ***Report on the Financial Statements***

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, Ohio, as of December 31, 2014, 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, Fire Levy Fund, and Street Construction, Maintenance and Repair Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 11, 2015

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*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, 2014. 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***

- The City's net position decreased during 2014 due mainly to reductions in cash and cash equivalents as well as from an increase in long-term obligations relating to storm sewer and water projects. The reduction in cash and cash equivalents can be attributed to a decrease in intergovernmental monies relating to the elimination of inheritance taxes as well as to higher materials and supplies and contractual service expenses in the water and sewer funds. The decrease in net position was partially offset by an increase to capital assets resulting from current year additions outpacing annual depreciation.
- During 2014, the City received new OPWC monies for the South Colonial Storm Sewer project and the Downtown Waterline Replacement project. The South Colonial Storm Sewer project was completed in 2014.
- In 2014, capital asset additions consisted of the purchase of various equipment and vehicles as well as infrastructure improvements to roads, storm sewers and curbs.

***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 Position 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 Position 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 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Cortland's finances, in a manner similar to private sector businesses.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

The *statement of net position* presents information on all of the City of Cortland's assets, deferred outflows, liabilities and deferred inflows with the difference reported as *net position*. Over time, increases or decreases in net position 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 position changed during the recent fiscal year. All changes in net position 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 fourteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the police levy, the fire levy and the street construction, maintenance and repair special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.



**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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 Position looks at the City as a whole. The following table provides a summary of the City's net assets for 2014 compared to 2013.

**Table 1**  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and Other Assets	\$4,051,262	\$4,205,962	\$833,222	\$989,085	\$4,884,484	\$5,195,047
Capital Assets, Net	5,492,686	4,789,732	10,264,845	10,564,431	15,757,531	15,354,163
<i>Total Assets</i>	<u>9,543,948</u>	<u>8,995,694</u>	<u>11,098,067</u>	<u>11,553,516</u>	<u>20,642,015</u>	<u>20,549,210</u>
<b>Liabilities</b>						
Current Liabilities	190,690	173,155	46,385	33,452	237,075	206,607
Long-Term Liabilities						
Due Within One Year	62,770	46,017	206,355	222,302	269,125	268,319
Due in More Than One Year	504,026	235,567	2,977,469	3,142,707	3,481,495	3,378,274
<i>Total Liabilities</i>	<u>757,486</u>	<u>454,739</u>	<u>3,230,209</u>	<u>3,398,461</u>	<u>3,987,695</u>	<u>3,853,200</u>
<b>Deferred Inflows of Resources</b>	<u>2,127,658</u>	<u>2,135,267</u>	<u>0</u>	<u>0</u>	<u>2,127,658</u>	<u>2,135,267</u>
<b>Net Position</b>						
Net Investment in						
Capital Assets	5,198,397	4,765,692	7,165,628	7,282,586	12,364,025	12,048,278
Restricted for:						
Capital Projects	217,289	232,583	0	0	217,289	232,583
Police	180,647	143,120	0	0	180,647	143,120
Fire	289,022	237,766	0	0	289,022	237,766
Street Construction,						
Maintenance and Repair	230,800	418,231	0	0	230,800	418,231
Other Purposes	226,449	94,015	0	0	226,449	94,015
Unrestricted	316,200	514,281	702,230	872,469	1,018,430	1,386,750
<i>Total Net Position</i>	<u>\$6,658,804</u>	<u>\$6,405,688</u>	<u>\$7,867,858</u>	<u>\$8,155,055</u>	<u>\$14,526,662</u>	<u>\$14,560,743</u>

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

Total assets for governmental activities increased due an increase in capital assets offset by a reduction in cash and cash equivalents which can be attributed to a decrease in intergovernmental monies relating to the elimination of inheritance taxes. Net capital assets for governmental activities increased due to additions of equipment and vehicles as well as infrastructure improvements to roads, storm sewers and curbs. This increase was partially offset by current year depreciation. The increase in current liabilities was due to an increase in intergovernmental payables relating to employee pension accruals. The increase in long-term liabilities was due to the issuance of an OPWC loan for storm sewer improvements.

Total assets for business-type activities decreased due to a reduction in cash and cash equivalents resulting from higher materials and supplies and contractual service expenditures along with a decrease to net capital assets due to annual depreciation. This capital asset decrease was partially offset by the purchase of a utility truck and equipment. Total liabilities for business-type activities decreased due to the annual pay-down of OPWC loans and an OWDA loan.

The City of Cortland was able to report positive balances for combined net position as well as for the separate governmental and business-type activities.

In order to further understand what makes up the changes in net position 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 changes in net position for 2014 compared to 2013.

**Table 2**  
*Change in Net Position*

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$553,026	\$554,386	\$1,571,981	\$1,507,466	\$2,125,007	\$2,061,852
Operating Grants and Contributions	1,236,009	808,638	0	0	1,236,009	808,638
Capital Grants	0	22,748	0	0	0	22,748
Total Program Revenues	<u>1,789,035</u>	<u>1,385,772</u>	<u>1,571,981</u>	<u>1,507,466</u>	<u>3,361,016</u>	<u>2,893,238</u>
General Revenues						
Property Taxes	2,134,288	2,107,734	0	0	2,134,288	2,107,734
Grants and Entitlements	143,087	163,380	135,851	0	278,938	163,380
Investment Earnings	5,683	8,607	0	0	5,683	8,607
Gain on Sale of Capital Assets	0	999	0	0	0	999
Other	81,527	48,243	24,399	56,455	105,926	104,698
Total General Revenues	<u>2,364,585</u>	<u>2,328,963</u>	<u>160,250</u>	<u>56,455</u>	<u>2,524,835</u>	<u>2,385,418</u>
<i>Total Revenues</i>	<u>\$4,153,620</u>	<u>\$3,714,735</u>	<u>\$1,732,231</u>	<u>\$1,563,921</u>	<u>\$5,885,851</u>	<u>\$5,278,656</u>

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Program Expenses</b>						
General Government	\$648,212	\$659,713	\$0	\$0	\$648,212	\$659,713
Security of Persons and Property	2,455,825	2,392,895	0	0	2,455,825	2,392,895
Public Health and Welfare	33	66	0	0	33	66
Leisure Time Activities	33,768	24,962	0	0	33,768	24,962
Community Environment	41,574	250,268	0	0	41,574	250,268
Transportation	717,242	644,617	0	0	717,242	644,617
Basic Utility Services	3,850	52,501	0	0	3,850	52,501
Water	0	0	798,647	919,637	798,647	919,637
Sewer	0	0	1,220,781	961,266	1,220,781	961,266
Total Program Expenses	3,900,504	4,025,022	2,019,428	1,880,903	5,919,932	5,905,925
Change in Net Position	253,116	(310,287)	(287,197)	(316,982)	(34,081)	(627,269)
Net Position Beginning of Year	6,405,688	6,715,975	8,155,055	8,472,037	14,560,743	15,188,012
Net Position End of Year	\$6,658,804	\$6,405,688	\$7,867,858	\$8,155,055	\$14,526,662	\$14,560,743

***Governmental Activities***

For governmental activities, there was an increase in both program revenues and general revenues for 2014. The increase in capital grants was due to an increase in OPWC grant monies. The increase in general revenues was due to an increase in property taxes as well as miscellaneous other revenues. 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 was renewed for 5 years at the November 8, 2011 general election, an 8 mill police levy which is continuous and a 6.76 fire levy which is also continuous. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services.

A review of table 2 also shows that program expenses decreased from 2013 levels. The decrease in governmental expenses can be attributed mainly to lower community environment expenses related to community housing improvement programs and to a significant drop in transportation and basic utility service expenses resulting from a greater amount of infrastructure costs being capitalized instead of expensed in 2014.

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

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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
	2014	2013	2014	2013
General Government	\$648,212	\$659,713	(\$513,184)	(\$533,034)
Security of Persons and Property	2,455,825	2,392,895	(1,699,952)	(1,688,191)
Public Health and Welfare	33	66	1,417	266
Leisure Time Activities	33,768	24,962	(26,427)	(19,643)
Community Environment	41,574	250,268	99,463	(106,775)
Transportation	717,242	644,617	25,712	(241,675)
Basic Utility Services	3,850	52,501	1,502	(50,198)
<b>Total</b>	<b>\$3,900,504</b>	<b>\$4,025,022</b>	<b>(\$2,111,469)</b>	<b>(\$2,639,250)</b>

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. In 2014, charges for services continued to be the major revenue source for business-type activities. On the expense side, the largest expenses are for contractual services and employee payroll and benefits.

***Governmental Funds***

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

The City's major governmental funds are the general fund and the police levy, fire levy and street construction, maintenance and repair special revenue funds. The general fund saw a decrease in fund balance due to an increase in capital outlay expenditures as well as to a reduction in intergovernmental revenues resulting from the elimination of inheritance taxes. The police levy and fire levy special revenue funds both saw increases in fund balance as revenues continued to outpace expenditures. The street, construction, maintenance and repair special revenue fund saw a decrease in fund balance which can be attributed to higher capital outlay expenditures for road repairs.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

***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 2014, 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 department level for all funds. 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 decrease in revenues from the final budget to actual, but overall individual revenue projections were very close to estimates. 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 2014. There was a 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.

***Capital Assets and Debt Administration***

*Capital Assets*

Table 4 shows 2014 balances of capital assets as compared to 2013.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements	331,559	347,957	0	0	331,559	347,957
Furniture, Fixtures and Equipment	234,649	242,540	78,339	59,848	312,988	302,388
Vehicles	294,056	286,839	150,454	137,764	444,510	424,603
Infrastructure	4,614,846	3,894,820	9,990,965	10,321,732	14,605,811	14,216,552
<b>Total Capital Assets</b>	<b>\$5,492,686</b>	<b>\$4,789,732</b>	<b>\$10,264,845</b>	<b>\$10,564,431</b>	<b>\$15,757,531</b>	<b>\$15,354,163</b>

For 2014, the primary additions for governmental activities included the purchase of various equipment and vehicles as well as infrastructure improvements to roads, storm sewers and curbs.

Capital asset additions for business-type activities consisted of a utility truck and equipment.

Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

*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	
	2014	2013	2014	2013	2014	2013
OPWC Loans	\$294,289	\$24,040	\$2,028,911	\$2,162,960	\$2,323,200	\$2,187,000
OWDA Loans	0	0	1,070,306	1,118,885	1,070,306	1,118,885
Compensated Absences	272,507	257,544	84,607	83,164	357,114	340,708
Total	<u>\$566,796</u>	<u>\$281,584</u>	<u>\$3,183,824</u>	<u>\$3,365,009</u>	<u>\$3,750,620</u>	<u>\$3,646,593</u>

The City's long-term obligations consists only of compensated absences, OPWC loans and OWDA loans. Business-type OPWC loans and OWDA loans are for infrastructure improvement projects and will be repaid using water and sewer revenues. The governmental OPWC loan is for storm sewer improvements and will be repaid from the general fund using storm sewer charges. During 2014, the City received additional proceeds on two OPWC loans, one for storm sewer improvements and one for a waterline replacement project. 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 ensure continued financial stability as we go forward.

The two proprietary funds have shown significant differences in the past few years. The water fund needs to begin building capital for major improvements over the next five to ten years. A rate increase was instituted in 2008 to generate additional funding in the water fund which will need additional operating revenue, as well as funding for major projects. The sewer fund has been utilized to study areas of inflow and infiltration, and projects have been completed to replace old and dilapidating sewer lines throughout the City. This program will continue, with money available in the sewer fund.

**Contacting the City's Finance Department**

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Fran Moyer, Finance Director, City of Cortland, 400 N. High St. Cortland, Ohio 44410. Phone: (330) 637-4263, Fax: (330) 637-4778 or email [financedirector@cityofcortland.org](mailto:financedirector@cityofcortland.org).

**City of Cortland, Ohio**

*Statement of Net Position*

*December 31, 2014*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,116,766	\$643,135	\$1,759,901
Accounts Receivable	220,450	180,301	400,751
Intergovernmental Receivable	390,159	0	390,159
Prepaid Items	33,434	9,786	43,220
Property Taxes Receivable	2,290,453	0	2,290,453
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	5,475,110	10,219,758	15,694,868
<i>Total Assets</i>	<u>9,543,948</u>	<u>11,098,067</u>	<u>20,642,015</u>
<b>Liabilities</b>			
Accounts Payable	0	4,756	4,756
Accrued Wages	62,638	15,085	77,723
Intergovernmental Payable	128,052	26,544	154,596
Long-Term Liabilities:			
Due Within One Year	62,770	206,355	269,125
Due In More Than One Year	504,026	2,977,469	3,481,495
<i>Total Liabilities</i>	<u>757,486</u>	<u>3,230,209</u>	<u>3,987,695</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,127,658	0	2,127,658
<b>Net Position</b>			
Net Investment in Capital Assets	5,198,397	7,165,628	12,364,025
Restricted for:			
Capital Projects	217,289	0	217,289
Police	180,647	0	180,647
Fire	289,022	0	289,022
Street Construction, Maintenance and Repair	230,800	0	230,800
Other Purposes	226,449	0	226,449
Unrestricted	316,200	702,230	1,018,430
<i>Total Net Position</i>	<u>\$6,658,804</u>	<u>\$7,867,858</u>	<u>\$14,526,662</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2014

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
General Government	\$648,212	\$135,028	\$0	\$0
Security of Persons and Property	2,455,825	394,818	361,055	0
Public Health and Welfare	33	1,450	0	0
Leisure Time Activities	33,768	7,341	0	0
Community Environment	41,574	9,037	132,000	0
Transportation	717,242	0	742,954	0
Basic Utility Services	3,850	5,352	0	0
<i>Total Governmental Activities</i>	<u>3,900,504</u>	<u>553,026</u>	<u>1,236,009</u>	<u>0</u>
<b>Business-Type Activities:</b>				
Water	798,647	667,681	0	0
Sewer	1,220,781	904,300	0	0
<i>Total Business-Type Activities</i>	<u>2,019,428</u>	<u>1,571,981</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$5,919,932</u>	<u>\$2,125,007</u>	<u>\$1,236,009</u>	<u>\$0</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 Position

*Net Position Beginning of Year (Restated - See Note 3)*

*Net Position End of Year*

See accompanying notes to the basic financial statements



Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$513,184)	\$0	(\$513,184)
(1,699,952)	0	(1,699,952)
1,417	0	1,417
(26,427)	0	(26,427)
99,463	0	99,463
25,712	0	25,712
1,502	0	1,502
(2,111,469)	0	(2,111,469)
0	(130,966)	(130,966)
0	(316,481)	(316,481)
0	(447,447)	(447,447)
(2,111,469)	(447,447)	(2,558,916)
472,260	0	472,260
893,141	0	893,141
768,887	0	768,887
143,087	135,851	278,938
5,683	0	5,683
81,527	24,399	105,926
2,364,585	160,250	2,524,835
253,116	(287,197)	(34,081)
6,405,688	8,155,055	14,560,743
<u>\$6,658,804</u>	<u>\$7,867,858</u>	<u>\$14,526,662</u>

**City of Cortland, Ohio**

*Balance Sheet  
Governmental Funds  
December 31, 2014*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$115,558	\$194,619	\$146,293	\$106,205	\$554,091	\$1,116,766
Receivables:						
Taxes	503,111	961,234	826,108	0	0	2,290,453
Accounts	172	0	220,278	0	0	220,450
Intergovernmental Receivable	68,858	72,178	62,338	154,555	32,230	390,159
Prepaid Items	11,284	9,003	8,928	4,219	0	33,434
<i>Total Assets</i>	<u>\$698,983</u>	<u>\$1,237,034</u>	<u>\$1,263,945</u>	<u>\$264,979</u>	<u>\$586,321</u>	<u>\$4,051,262</u>
<b>Liabilities</b>						
Accrued Wages	\$8,838	\$22,690	\$27,454	\$3,018	\$638	\$62,638
Intergovernmental Payable	18,745	45,984	57,162	5,508	653	128,052
<i>Total Liabilities</i>	<u>27,583</u>	<u>68,674</u>	<u>84,616</u>	<u>8,526</u>	<u>1,291</u>	<u>190,690</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	467,352	892,914	767,392	0	0	2,127,658
Unavailable Revenue	98,253	140,498	120,854	127,517	26,571	513,693
<i>Total Deferred Inflows of Resources</i>	<u>565,605</u>	<u>1,033,412</u>	<u>888,246</u>	<u>127,517</u>	<u>26,571</u>	<u>2,641,351</u>
<b>Fund Balances</b>						
Nonspendable	11,284	9,003	8,928	4,219	0	33,434
Restricted	0	125,945	282,155	124,717	417,167	949,984
Committed	0	0	0	0	141,292	141,292
Assigned	10,887	0	0	0	0	10,887
Unassigned	83,624	0	0	0	0	83,624
<i>Total Fund Balances</i>	<u>105,795</u>	<u>134,948</u>	<u>291,083</u>	<u>128,936</u>	<u>558,459</u>	<u>1,219,221</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$698,983</u>	<u>\$1,237,034</u>	<u>\$1,263,945</u>	<u>\$264,979</u>	<u>\$586,321</u>	<u>\$4,051,262</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities  
December 31, 2014*

---

<b>Total Governmental Fund Balances</b>		\$1,219,221
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,492,686
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.		
Delinquent Property Taxes	162,795	
Intergovernmental	<u>350,898</u>	
Total		513,693
Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.		
OPWC Loans Payable	(294,289)	
Compensated Absences	<u>(272,507)</u>	
Total		<u>(566,796)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$6,658,804</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2014*

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$471,255	\$890,938	\$767,096	\$0	\$0	\$2,129,289
Charges for Services	85,660	0	383,689	0	0	469,349
Licenses and Permits	71,776	0	0	0	0	71,776
Fines and Forfeitures	9,556	0	0	0	2,345	11,901
Intergovernmental	138,216	144,354	124,277	682,971	285,424	1,375,242
Interest	5,289	0	0	328	66	5,683
Contributions and Donations	0	750	0	0	0	750
Other	33,050	34,038	14,304	135	0	81,527
<i>Total Revenues</i>	<u>814,802</u>	<u>1,070,080</u>	<u>1,289,366</u>	<u>683,434</u>	<u>287,835</u>	<u>4,145,517</u>
<b>Expenditures</b>						
Current:						
General Government	622,190	0	0	0	0	622,190
Security of Persons and Property	47,081	1,003,188	1,224,466	0	90,381	2,365,116
Public Health Services	0	0	0	0	33	33
Leisure Time Activities	33,768	0	0	0	0	33,768
Community Environment	41,574	0	0	0	0	41,574
Transportation	0	0	0	496,152	28,991	525,143
Basic Utility Services	24,623	0	0	0	0	24,623
Capital Outlay	452,703	33,995	429	373,804	118,417	979,348
Debt Service:						
Principal Retirement	7,546	0	0	0	0	7,546
<i>Total Expenditures</i>	<u>1,229,485</u>	<u>1,037,183</u>	<u>1,224,895</u>	<u>869,956</u>	<u>237,822</u>	<u>4,599,341</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(414,683)</u>	<u>32,897</u>	<u>64,471</u>	<u>(186,522)</u>	<u>50,013</u>	<u>(453,824)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	0	3,300	0	0	0	3,300
OPWC Loans Issued	277,795	0	0	0	0	277,795
<i>Total Other Financing Sources (Uses)</i>	<u>277,795</u>	<u>3,300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>281,095</u>
<i>Net Change in Fund Balance</i>	<u>(136,888)</u>	<u>36,197</u>	<u>64,471</u>	<u>(186,522)</u>	<u>50,013</u>	<u>(172,729)</u>
<b>Fund Balances</b>						
<i>Beginning of Year</i>	<u>242,683</u>	<u>98,751</u>	<u>226,612</u>	<u>315,458</u>	<u>508,446</u>	<u>1,391,950</u>
<i>Fund Balances End of Year</i>	<u>\$105,795</u>	<u>\$134,948</u>	<u>\$291,083</u>	<u>\$128,936</u>	<u>\$558,459</u>	<u>\$1,219,221</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, 2014*

---



---

**Net Change in Fund Balances - Total Governmental Funds** (\$172,729)

*Amounts reported for governmental activities in the statement  
of activities are different because*

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.

Capital Asset Additions	1,290,966
Current Year Depreciation	(580,543)

Total	710,423
-------	---------

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (7,469)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	4,999
Intergovernmental	3,104

Total	8,103
-------	-------

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 7,546

Proceeds of OPWC loans are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net position. (277,795)

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. (14,963)

*Change in Net Position of Governmental Activities* \$253,116

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*  
*General Fund*  
*For the Year Ended December 31, 2014*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$557,415	\$492,669	\$471,255	(\$21,414)
Charges for Services	98,398	86,969	83,189	(3,780)
Licenses and Permits	84,899	75,037	71,776	(3,261)
Fines and Forfeitures	10,883	9,619	9,201	(418)
Intergovernmental	164,858	145,709	139,376	(6,333)
Interest	3,594	5,828	5,575	(253)
Other	39,093	34,552	33,050	(1,502)
<i>Total Revenues</i>	<u>959,140</u>	<u>850,383</u>	<u>813,422</u>	<u>(36,961)</u>
<b>Expenditures</b>				
Current:				
General Government	790,491	716,423	621,802	94,621
Security of Persons and Property	66,591	60,352	52,381	7,971
Leisure Time Activities	42,929	40,652	40,264	388
Community Environment	50,756	46,001	39,925	6,076
Basic Utility Services	31,304	28,370	24,623	3,747
Capital Outlay	222,359	199,779	179,299	20,480
<i>Total Expenditures</i>	<u>1,204,430</u>	<u>1,091,577</u>	<u>958,294</u>	<u>133,283</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(245,290)</u>	<u>(241,194)</u>	<u>(144,872)</u>	<u>96,322</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	73,970	62,727	60,000	(2,727)
Advances Out	(76,277)	(69,130)	(60,000)	9,130
<i>Total Other Financing Sources (Uses)</i>	<u>(2,307)</u>	<u>(6,403)</u>	<u>0</u>	<u>6,403</u>
<i>Net Change in Fund Balance</i>	(247,597)	(247,597)	(144,872)	102,725
<i>Fund Balance Beginning of Year</i>	240,041	240,041	240,041	0
Prior Year Encumbrances Appropriated	7,556	7,556	7,556	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$102,725</u>	<u>\$102,725</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, 2014*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$827,959	\$894,865	\$890,938	(\$3,927)
Intergovernmental	134,158	145,000	144,354	(646)
Contributions and Donations	0	0	750	750
Other	34,234	37,000	34,038	(2,962)
<i>Total Revenues</i>	996,351	1,076,865	1,070,080	(6,785)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,102,417	1,180,474	993,375	187,099
Capital Outlay	42,024	45,000	33,995	11,005
<i>Total Expenditures</i>	1,144,441	1,225,474	1,027,370	198,104
<i>Excess of Revenues Over (Under) Expenditures</i>	(148,090)	(148,609)	42,710	191,319
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	3,300	3,300
Advances In	55,514	60,000	60,000	0
Advances Out	(56,033)	(60,000)	(60,000)	0
<i>Total Other Financing Sources (Uses)</i>	(519)	0	3,300	3,300
<i>Net Change in Fund Balance</i>	(148,609)	(148,609)	46,010	194,619
<i>Fund Balance Beginning of Year</i>	148,481	148,481	148,481	0
Prior Year Encumbrances Appropriated	128	128	128	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$194,619	\$194,619

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, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$770,332	\$770,332	\$767,096	(\$3,236)
Charges for Services	288,500	288,500	307,289	18,789
Intergovernmental	125,000	125,000	124,277	(723)
Contributions and Donations	1,500	1,500	0	(1,500)
Other	10,001	10,001	14,304	4,303
<i>Total Revenues</i>	<u>1,195,333</u>	<u>1,195,333</u>	<u>1,212,966</u>	<u>17,633</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,343,153	1,343,153	1,215,364	127,789
Capital Outlay	600	600	429	171
<i>Total Expenditures</i>	<u>1,343,753</u>	<u>1,343,753</u>	<u>1,215,793</u>	<u>127,960</u>
<i>Net Change in Fund Balance</i>	(148,420)	(148,420)	(2,827)	145,593
<i>Fund Balance Beginning of Year</i>	<u>148,420</u>	<u>148,420</u>	<u>148,420</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$145,593</u></u>	<u><u>\$145,593</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  
 Street Construction, Maintenance and Repair Fund  
 For the Year Ended December 31, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$701,085	\$701,085	\$683,546	(\$17,539)
Interest	1,000	1,000	328	(672)
Other	999	999	135	(864)
<i>Total Revenues</i>	<u>703,084</u>	<u>703,084</u>	<u>684,009</u>	<u>(19,075)</u>
<b>Expenditures</b>				
Current:				
Transportation	604,341	604,341	497,871	106,470
Capital Outlay	392,614	392,614	373,804	18,810
<i>Total Expenditures</i>	<u>996,955</u>	<u>996,955</u>	<u>871,675</u>	<u>125,280</u>
<i>Net Change in Fund Balance</i>	(293,871)	(293,871)	(187,666)	106,205
<i>Fund Balance Beginning of Year</i>	293,796	293,796	293,796	0
Prior Year Encumbrances Appropriated	<u>75</u>	<u>75</u>	<u>75</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$106,205</u>	<u>\$106,205</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Funds*  
*December 31, 2014*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$414,750	\$228,385	\$643,135
Accounts Receivable	72,177	108,124	180,301
Prepaid Items	4,893	4,893	9,786
<i>Total Current Assets</i>	<u>491,820</u>	<u>341,402</u>	<u>833,222</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	5,649,423	4,570,335	10,219,758
<i>Total Noncurrent Assets</i>	<u>5,693,823</u>	<u>4,571,022</u>	<u>10,264,845</u>
<i>Total Assets</i>	<u>6,185,643</u>	<u>4,912,424</u>	<u>11,098,067</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	4,756	0	4,756
Accrued Wages	7,521	7,564	15,085
Intergovernmental Payable	12,935	13,609	26,544
Compensated Absences Payable	3,667	3,667	7,334
OPWC Loans Payable	136,247	12,628	148,875
OWDA Loans Payable	50,146	0	50,146
<i>Total Current Liabilities</i>	<u>215,272</u>	<u>37,468</u>	<u>252,740</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	42,889	34,384	77,273
OPWC Loans Payable	1,880,036	0	1,880,036
OWDA Loans Payable	1,020,160	0	1,020,160
<i>Total Long-Term Liabilities</i>	<u>2,943,085</u>	<u>34,384</u>	<u>2,977,469</u>
<i>Total Liabilities</i>	<u>3,158,357</u>	<u>71,852</u>	<u>3,230,209</u>
<b>Net Position</b>			
Net Investment in Capital Assets	2,607,234	4,558,394	7,165,628
Unrestricted	420,052	282,178	702,230
<i>Total Net Position</i>	<u>\$3,027,286</u>	<u>\$4,840,572</u>	<u>\$7,867,858</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Enterprise Funds  
For the Year Ended December 31, 2014*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$660,161	\$901,330	\$1,561,491
Tap-In Fees	7,520	2,970	10,490
Other	22,857	1,542	24,399
<i>Total Operating Revenues</i>	<u>690,538</u>	<u>905,842</u>	<u>1,596,380</u>
<b>Operating Expenses</b>			
Personal Services	290,535	303,724	594,259
Materials and Supplies	103,223	67,110	170,333
Contractual Services	195,711	658,066	853,777
Depreciation	173,760	191,881	365,641
<i>Total Operating Expenses</i>	<u>763,229</u>	<u>1,220,781</u>	<u>1,984,010</u>
<i>Operating Income (Loss)</i>	(72,691)	(314,939)	(387,630)
<b>Non-Operating Revenues (Expenses)</b>			
Intergovernmental	0	135,851	135,851
Interest and Fiscal Charges	(35,418)	0	(35,418)
<i>Change in Net Position</i>	(108,109)	(179,088)	(287,197)
<i>Net Position Beginning of Year (Restated - See Note 3)</i>	<u>3,135,395</u>	<u>5,019,660</u>	<u>8,155,055</u>
<i>Net Position End of Year</i>	<u>\$3,027,286</u>	<u>\$4,840,572</u>	<u>\$7,867,858</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, 2014

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$662,016	\$902,371	\$1,564,387
Tap In Fees	7,520	2,970	10,490
Other Operating Revenues	22,857	1,542	24,399
Cash Payments to Suppliers for Materials and Supplies	(98,467)	(67,110)	(165,577)
Cash Payments for Employee Services and Benefits	(285,797)	(298,842)	(584,639)
Cash Payments for Contractual Services	(196,321)	(658,676)	(854,997)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>111,808</u>	<u>(117,745)</u>	<u>(5,937)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
<b>Financing Activities</b>			
Intergovernmental Revenue	0	135,851	135,851
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition of Capital Assets	(33,028)	(33,027)	(66,055)
OPWC Loans Issued	27,455	0	27,455
Principal Paid on OPWC Loans	(136,248)	(25,256)	(161,504)
Principal Paid on OWDA Loans	(48,579)	0	(48,579)
Interest Paid on OWDA Loans	(35,418)	0	(35,418)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(225,818)</u>	<u>(58,283)</u>	<u>(284,101)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(114,010)	(40,177)	(154,187)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>528,760</u>	<u>268,562</u>	<u>797,322</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$414,750</u></u>	<u><u>\$228,385</u></u>	<u><u>\$643,135</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Income (Loss)	(\$72,691)	(\$314,939)	(\$387,630)
Adjustments:			
Depreciation	173,760	191,881	365,641
(Increase) Decrease in Assets:			
Accounts Receivable	1,855	1,041	2,896
Prepaid Items	(610)	(610)	(1,220)
Increase (Decrease) in Liabilities:			
Accounts Payable	4,756	0	4,756
Accrued Wages	1,341	988	2,329
Compensated Absences Payable	533	910	1,443
Intergovernmental Payable	2,864	2,984	5,848
<i>Total Adjustments</i>	<u>184,499</u>	<u>197,194</u>	<u>381,693</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$111,808</u></u>	<u><u>(\$117,745)</u></u>	<u><u>(\$5,937)</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

**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.

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

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 position 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, 2014*

---

---

**Government-wide Financial Statements** The statement of net position 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 position 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

**Police Levy Fund** The police levy special revenue fund is used to account for and report restricted property taxes for police equipment and for salaries of the policemen.

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

***Street Construction, Maintenance and Repair Fund*** The street construction, maintenance and repair special revenue fund is used to account for and report restricted State gasoline tax and motor vehicle license fees for maintenance of streets within the City.

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

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

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

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

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

***Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

***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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

***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 outflows/inflows of resources and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes and grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

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 2014, the City's investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2014.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2014 amounted to \$5,289 which includes \$4,916 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, 2014, 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 position 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 position 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. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

All capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business Type Activities Estimated Lives
Buildings and Improvements	20 - 50 years	n/a
Furniture, Fixtures and Equipment	5 - 10 years	5 - 10 years
Vehicles	5 - 20 years	5 - 10 years
Infrastructure:		
Roads	10 years	n/a
Storm Sewers	50 years	n/a
Sidewalks	40 years	n/a
Curbs	50 years	n/a
Water and Sewer Lines	n/a	50 years

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

***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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

***Fund Balance***

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

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

***Assigned:*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance or by State Statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted for other purposes include resources restricted for law enforcement education, drug enforcement and repair and maintenance of state highways. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is 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. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for 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 and after non-operating revenues/expenses in proprietary 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, tap-in fees and other 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.

***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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

***Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. Council appropriations are made to the department level for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within funds (except the general fund) and within departments within the general fund has been given to the Director of Finance.

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

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

**Note 3 – Restatement of Prior Year Net Position**

During the year, it was determined that governmental OPWC debt obligations were understated by \$24,040. This restatement decreased governmental activities net position at January 1, 2014 from \$6,429,728 to \$6,405,688.

During the year, it was determined that business-type OPWC debt obligations were overstated by \$24,040. This had the following effect on business-type net position as previously reported:

	Water	Sewer	Total
Net Position, December 31, 2013	\$3,135,395	\$4,995,620	\$8,131,015
Overstatement of OPWC Loans	0	24,040	24,040
Adjusted Net Position, December 31, 2013	\$3,135,395	\$5,019,660	\$8,155,055

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

**Note 4 - Fund Balances**

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

Fund Balances	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total
<i><b>Nonspendable</b></i>						
Prepays	\$11,284	\$9,003	\$8,928	\$4,219	\$0	\$33,434
<i><b>Restricted for</b></i>						
Public Safety	0	125,945	282,155	0	6,075	414,175
Street Maintenance	0	0	0	124,717	61,803	186,520
Community Improvement	0	0	0	0	132,000	132,000
Capital Improvements	0	0	0	0	217,289	217,289
<i>Total Restricted</i>	<u>0</u>	<u>125,945</u>	<u>282,155</u>	<u>124,717</u>	<u>417,167</u>	<u>949,984</u>
<i><b>Committed to</b></i>						
Capital Improvements	0	0	0	0	141,292	141,292
<i><b>Assigned to</b></i>						
Purchases on Order:						
Contracted Services	10,887	0	0	0	0	10,887
<i>Unassigned</i>	<u>83,624</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>83,624</u>
<i>Total Fund Balances</i>	<u><u>\$105,795</u></u>	<u><u>\$134,948</u></u>	<u><u>\$291,083</u></u>	<u><u>\$128,936</u></u>	<u><u>\$558,459</u></u>	<u><u>\$1,219,221</u></u>

**Note 5 - Budgetary Basis of Accounting**

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

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
GAAP Basis	(\$136,888)	\$36,197	\$64,471	(\$186,522)
Net Adjustments for Revenue Accruals	(279,461)	0	(76,400)	575
Beginning Unrecorded Cash	2,232	0	0	0
Ending Unrecorded Cash	(1,946)	0	0	0
Advances In	60,000	60,000	0	0
Net Adjustments for Expenditure Accruals	282,078	9,813	9,802	(1,719)
Advances Out	(60,000)	(60,000)	0	0
Encumbrances	(10,887)	0	(700)	0
Budget Basis	<u>(\$144,872)</u>	<u>\$46,010</u>	<u>(\$2,827)</u>	<u>(\$187,666)</u>

**Note 6 - Deposits and Investments**

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

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

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

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

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest any monies not required to be used for a period of six months or more in the following:

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

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

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



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

**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 possession of an outside party. At year end, \$963,344 of the City's bank balance of \$1,666,995 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 Federal Deposit Insurance Corporation.

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

**Investments**

At December 31, 2014, the City had an investment with STAR Ohio. The fair value of this investment was \$200,090 and had an average maturity of 50.1 days.

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

**Note 7 - Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2014 for real and public utility property taxes represents collections of 2013 taxes.

2014 real property taxes were levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes which became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

The full tax rate for all City operations for the year ended December 31, 2014, was \$19.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2014 property tax receipts were based are as follows:

Real Property	\$131,023,190
Public Utility Personal Property	<u>2,083,270</u>
Total	<u><u>\$133,106,460</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2014, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2014 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

**Note 8 - Receivables**

Receivables at December 31, 2014, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services) and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Homestead and Rollback	\$172,167
Gasoline Tax	118,320
Auto License	68,465
Local Government	30,146
Trumbull County Court	861
Johnston Township	<u>200</u>
Total	<u><u>\$390,159</u></u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

**Note 9 - Contingencies**

***Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2014.

***Litigation***

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

**Note 10 - 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 2014, 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, 2014*

**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/13	Additions	Reductions	Balance 12/31/14
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	740,213	33,006	0	773,219
Vehicles	1,163,124	75,833	(18,674)	1,220,283
Infrastructure:				
Roads	3,638,912	577,771	0	4,216,683
Storm Sewers	1,443,209	427,350	0	1,870,559
Sidewalks	550,337	0	0	550,337
Curbs	611,424	177,006	0	788,430
Total capital assets being depreciated	9,116,891	1,290,966	(18,674)	10,389,183
Accumulated depreciation				
Buildings and Improvements	(621,715)	(16,398)	0	(638,113)
Furniture, Fixtures and Equipment	(497,673)	(40,897)	0	(538,570)
Vehicles	(876,285)	(61,147)	11,205	(926,227)
Infrastructure:				
Roads	(2,098,981)	(395,163)	0	(2,494,144)
Storm Sewers	(149,440)	(37,411)	0	(186,851)
Sidewalks	(45,684)	(13,758)	0	(59,442)
Curbs	(54,957)	(15,769)	0	(70,726)
Total accumulated depreciation	(4,344,735)	(580,543) *	11,205	(4,914,073)
Capital assets being depreciated, net	4,772,156	710,423	(7,469)	5,475,110
Governmental activities capital assets, net	\$4,789,732	\$710,423	(\$7,469)	\$5,492,686

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

	Balance 12/31/13	Additions	Reductions	Balance 12/31/14
Business type Activities:				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Capital assets being depreciated				
Furniture, Fixtures and Equipment	197,091	29,353	0	226,444
Vehicles	291,421	36,702	0	328,123
Infrastructure:				
Water Lines	8,420,590	0	0	8,420,590
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	18,058,677	66,055	0	18,124,732
Accumulated depreciation				
Furniture, Fixtures and Equipment	(137,243)	(10,862)	0	(148,105)
Vehicles	(153,657)	(24,012)	0	(177,669)
Infrastructure:				
Water Lines	(2,678,783)	(163,013)	0	(2,841,796)
Sewer Lines	(4,569,650)	(167,754)	0	(4,737,404)
Total accumulated depreciation	(7,539,333)	(365,641)	0	(7,904,974)
Capital assets being depreciated, net	10,519,344	(299,586)	0	10,219,758
Business type Activities capital assets, net	\$10,564,431	(\$299,586)	\$0	\$10,264,845

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

General Government	\$57,066
Security of Persons and Property	72,243
Transportation	413,823
Basic Utility Services	37,411
Total	<u>\$580,543</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

**Note 12 - Long-term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
<b>Business-Type Activities</b>			
<i>Ohio Public Works Commission Loans:</i>			
North High Street - 1998	0%	352,685	2017
South Mecca Sanitary Sewer - 1995	0%	507,071	2015
Southern Waterline - 2007	0%	328,900	2027
North High Street II Waterline - 2009	0%	482,800	2029
Willow Park Tank Replacement - 2009	0%	878,000	2031
North Wellfield Interconnect - 2011	0%	264,768	2031
Downtown Waterline Replacement - 2013	0%	417,800	2033
Downtown Waterline Replacement Phase II - 2014	0%	N/A	N/A
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	1,233,794	2031
<b>Governmental Activities</b>			
<i>Ohio Public Works Commission Loans:</i>			
South Colonial Storm Sewer - 2014	0%	301,835	2034

Changes in long-term obligations of the City during 2014 were as follows:

	Outstanding 12/31/2013	Additions	Reductions	Outstanding 12/31/2014	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
North High Street	\$70,537	\$0	\$17,634	\$52,903	\$17,634
South Mecca Sanitary Sewer	37,884	0	25,256	12,628	12,628
Southern Waterline	222,008	0	16,446	205,562	16,445
North High Street II Waterline	386,240	0	24,140	362,100	24,140
Willow Park Tank Replacement	790,200	0	43,900	746,300	43,900
North Wellfield Interconnect	238,291	0	13,238	225,053	13,238
Downtown Waterline Replacement	417,800	0	20,890	396,910	20,890
Downtown Waterline Replacement Phase II	0	27,455	0	27,455	0
<i>Total OPWC Loans</i>	2,162,960	27,455	161,504	2,028,911	148,875
<b>Ohio Water Development Authority Loan</b>					
Water Storage Tank	1,118,885	0	48,579	1,070,306	50,146
Compensated Absences	83,164	13,663	12,220	84,607	7,334
<i>Total Business Type Activities</i>	<u>\$3,365,009</u>	<u>\$41,118</u>	<u>\$222,303</u>	<u>\$3,183,824</u>	<u>\$206,355</u>
<b>Governmental Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
South Colonial Storm Sewer	\$24,040	\$277,795	\$7,546	\$294,289	\$15,092
Compensated Absences	257,544	60,980	46,017	272,507	47,678
<i>Total Governmental Type Activities</i>	<u>\$281,584</u>	<u>\$338,775</u>	<u>\$53,563</u>	<u>\$566,796</u>	<u>\$62,770</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

Business-type OPWC loans will be paid from water and sewer enterprise fund user service charges. The governmental OPWC loan will be repaid from the general fund with storm sewer service charges. The OWDA loan will be paid from the water enterprise fund user service charges. Compensated absences will be paid from the general fund, the street construction, maintenance and repair, police levy and fire levy special revenue funds and the water and sewer enterprise funds.

The City's overall legal debt margin was \$13,681,889 at December 31, 2014. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014, are as follows:

*Business Type Activities*

Year	OPWC Loans	OWDA Loan	
	Principal	Principal	Interest
2015	\$148,875	\$50,146	\$33,852
2016	136,248	51,763	32,234
2017	136,249	53,434	30,564
2018	118,613	55,156	28,841
2019	118,614	56,936	27,062
2020-2024	593,067	313,441	106,548
2025-2029	551,954	367,360	52,629
2030-2033	197,836	122,070	3,926
Total	\$2,001,456	\$1,070,306	\$315,656

*Governmental Activities*

Year	OPWC Loans
	Principal
2015	\$15,092
2016	15,092
2017	15,092
2018	15,092
2019	15,092
2020-2024	75,460
2025-2029	75,459
2030-2034	67,910
Total	\$294,289

A line of credit has been established with the Ohio Public Works Commission in the amount of \$431,250 for the Downtown Waterline Replacement Phase II project; however, since this loan is not finalized, the repayment schedule is not included in the schedule of debt service payments. As of December 31, 2014, the City has received \$27,455 in proceeds.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

**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 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 plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, 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. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2014, members in state and local divisions contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of the City's contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remained at 2 percent. Employer contribution rates are actuarially determined.



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2014, 2013 and 2012 were \$82,863, \$86,511 and \$62,787, respectively. For 2014, 86.49 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. Contributions to the member-directed plan for 2014 were \$2,989 made by the City and \$2,135 made by plan members.

***Ohio Police and Fire Pension Fund***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing multiple-employer defined benefit pension plan. OPF 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. OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. For 2014, the portion of the City's contributions used to fund pension benefits was 19 percent of covered payroll for police officers and 23.5 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$102,685 and \$135,596 for the year ended December 31, 2014, \$80,201 and \$101,475 for the year ended December 31, 2013, and \$60,340 and \$92,938 for the year ended December 31, 2012, respectively. For 2014, 87.87 percent for police and 87.95 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

**Note 15 - Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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 postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The postemployment 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 postretirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed at a rate of 14 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS Actuary.

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 the retiree’s surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City’s contribution allocated to fund post-employment health care benefits for the years ended December 31, 2014, 2013 and 2012 was \$13,810, \$6,655 and \$25,115, respectively. For 2014, 86.49 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

***Ohio Police and Fire Pension Fund***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OPF. OPF 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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

OPF 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 OPF 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 OPF to provide OPEB benefits. Authority for the OPF 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.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by visiting the OPF website at [www.opf.org](http://www.opf.org) or by writing to the Ohio Police and Fire Pension Fund, 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 OPF 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 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OPF 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 OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was 0.5 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 OPF 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 contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$2,702 and \$2,885 for the year ended December 31, 2014, \$18,262 and \$18,005 for the year ended December 31, 2013, and \$31,944 and \$36,367 for the year ended December 31, 2012. For 2014, 87.87 percent has been contributed for police and 87.95 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

---

---

**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. Each member's degree of control is limited to its representation on the board. Funding comes from each of the participants. For 2014, the City contributed \$8,753 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 2014, the City contributed \$1,492 to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.

**Note 17 – Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Governmental Funds:</i>		<i>Proprietary Funds:</i>	
General	\$10,887	Water Fund	<u>\$4,756</u>
Fire Levy	700		
Other Governmental Funds	<u>3,637</u>		
Total Governmental Funds	<u><u>\$15,224</u></u>		



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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 City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 11, 2015.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

***Entity's Response to Finding***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 11, 2015

**CITY OF CORTLAND  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**OPWC and ODOT Receipts and Expenditures**

<i>Finding Number</i>	2014-001
-----------------------	----------

NONCOMPLIANCE AND MATERIAL WEAKNESS

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

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

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

During 2014, the City was the beneficiary of Ohio Public Works Commission (OPWC) monies that were paid directly to the vendor by OPWC for grants for the Sewer fund in the amount of \$123,570; however the City did not post any receipts or expenditures for this activity.

Also, the City misposted \$12,281 of OPWC monies that were to be posted in the Sewer fund and \$75,614 that was to be posted in the Street Construction Maintenance and Repair fund. The financial statements have been adjusted to properly present these monies.

Additionally, during 2014, the City was the beneficiary of Ohio Department of Transportation (ODOT) monies that were paid directly to the vendor by ODOT for grants in the amount of \$302,471; the City did not post any receipts or expenditures for this activity. The financial statements have been adjusted to properly present these monies.

**Finding Number 2014 – 001  
(Continued)**

The City did not amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures. This resulted in the understatement of budgetary revenue and expenditure activity for the OPWC and ODOT monies.

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

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





# Dave Yost • Auditor of State

**CITY OF CORTLAND**

**TRUMBULL COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 1, 2015**