



Dave Yost • Auditor of State

**CITY OF CORTLAND
TRUMBULL COUNTY**

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TRUMBULL COUNTY

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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, Police Levy, Fire Levy, and Street Construction, Maintenance and Repair funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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*, and schedules of net pension liabilities and pension contributions 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 December 11, 2017, 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

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
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, 2015. 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 2015 due an increase in the net pension liability being partially offset by capital assets resulting from current year additions outpacing annual depreciation.
- During 2015, the City received new OPWC monies for the Downtown Waterline Replacement project.
- The City implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City. The City has reported these liabilities to comply with the requirements of GASB 68 and 71.
- In 2015, capital asset additions consisted of the purchase of vehicles, buildings and improvements and infrastructure improvements to roads, storm sewers, sidewalks 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 2015?" 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.

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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.

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The City of Cortland adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

Proprietary Funds The City of Cortland's proprietary funds consist of water and sewer. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations as they are considered major funds.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole. The following table provides a summary of the City's net position for 2015 compared to 2014.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and Other Assets	\$4,201,478	\$4,051,262	\$865,273	\$833,222	\$5,066,751	\$4,884,484
Capital Assets, Net	5,736,453	5,492,686	10,403,595	10,264,845	16,140,048	15,757,531
<i>Total Assets</i>	<u>9,937,931</u>	<u>9,543,948</u>	<u>11,268,868</u>	<u>11,098,067</u>	<u>21,206,799</u>	<u>20,642,015</u>
Deferred Outflows of Resources						
Pension	427,588	284,628	64,759	46,399	492,347	331,027
Liabilities						
Current Liabilities	90,453	190,690	20,813	46,385	111,266	237,075
Long-Term Liabilities						
Due Within One Year	33,903	62,770	216,019	206,355	249,922	269,125
Due in More Than One Year						
Net Pension Liability	3,329,376	3,144,257	380,407	371,815	3,709,783	3,516,072
Other Amounts	525,395	504,026	3,415,755	2,977,469	3,941,150	3,481,495
<i>Total Liabilities</i>	<u>\$3,979,127</u>	<u>\$3,901,743</u>	<u>\$4,032,994</u>	<u>\$3,602,024</u>	<u>\$8,012,121</u>	<u>\$7,503,767</u>

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Table 1
Net Position (continued)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Deferred Inflows of Resources						
Property Tax	\$2,486,053	\$2,127,658	\$0	\$0	\$2,486,053	\$2,127,658
Pension	6,683	0	6,683	0	13,366	0
<i>Total Deferred Inflows of Resources</i>	<u>2,492,736</u>	<u>2,127,658</u>	<u>6,683</u>	<u>0</u>	<u>2,499,419</u>	<u>2,127,658</u>
Net Position						
Net Investment in Capital Assets	5,457,256	5,198,397	6,840,219	7,165,628	12,297,475	12,364,025
Restricted for:						
Capital Projects	215,067	217,289	0	0	215,067	217,289
Police	223,043	180,647	0	0	223,043	180,647
Fire	261,163	289,022	0	0	261,163	289,022
Street Construction, Maintenance and Repair	291,918	230,800	0	0	291,918	230,800
Other Purposes	112,791	226,449	0	0	112,791	226,449
Unrestricted (Deficit)	(2,667,582)	(2,543,429)	453,731	376,814	(2,213,851)	(2,166,615)
<i>Total Net Position</i>	<u>\$3,893,656</u>	<u>\$3,799,175</u>	<u>\$7,293,950</u>	<u>\$7,542,442</u>	<u>\$11,187,606</u>	<u>\$11,341,617</u>

During 2015, the City adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City’s proportionate share of each plan’s collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates

City of Cortland, Ohio
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are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2014, from \$6,658,804 to \$3,799,175 for governmental activities and from \$7,867,858 to \$7,542,442 for business-type activities.

Total assets for governmental activities increased due to an increase in capital assets offset by a reduction in cash and cash equivalents from fewer grant monies received during the year. Net capital assets for governmental activities increased due to additions of buildings and improvements and vehicles as well as infrastructure improvements to roads, storm sewers, sidewalks and curbs. This increase was partially offset by current year depreciation. The decrease in current liabilities was due to a decrease in accrued wages and intergovernmental payables relating to employee pension accruals. The increase in long-term liabilities was due to the net pension liability.

Total assets for business-type activities increased due to an increase to net capital assets due to current year additions exceeding annual depreciation. This capital asset increase resulted from improvements to infrastructure water lines. Total liabilities for business-type activities increased due to the issuance of OPWC loans which was partially offset by the annual pay downs.

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 2015 compared to 2014.

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Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$565,123	\$553,026	\$1,716,878	\$1,571,981	\$2,282,001	\$2,125,007
Operating Grants and Contributions	882,031	1,236,009	0	0	882,031	1,236,009
Capital Grants	201,408	0	0	0	201,408	0
Total Program Revenues	1,648,562	1,789,035	1,716,878	1,571,981	3,365,440	3,361,016
General Revenues						
Property Taxes	2,140,666	2,134,288	0	0	2,140,666	2,134,288
Grants and Entitlements	151,353	143,087	0	135,851	151,353	278,938
Investment Earnings	5,035	5,683	0	0	5,035	5,683
Other	69,113	81,527	28,346	24,399	97,459	105,926
Total General Revenues	2,366,167	2,364,585	28,346	160,250	2,394,513	2,524,835
<i>Total Revenues</i>	<i>4,014,729</i>	<i>4,153,620</i>	<i>1,745,224</i>	<i>1,732,231</i>	<i>5,759,953</i>	<i>5,885,851</i>
Program Expenses						
General Government	451,960	648,212	0	0	451,960	648,212
Security of Persons and Property	2,556,190	2,455,825	0	0	2,556,190	2,455,825
Public Health and Welfare	640	33	0	0	640	33
Leisure Time Activities	24,957	33,768	0	0	24,957	33,768
Community Environment	342,180	41,574	0	0	342,180	41,574
Transportation	534,111	717,242	0	0	534,111	717,242
Basic Utility Services	10,210	3,850	0	0	10,210	3,850
Water	0	0	916,994	798,647	916,994	798,647
Sewer	0	0	1,076,722	1,220,781	1,076,722	1,220,781
Total Program Expenses	3,920,248	3,900,504	1,993,716	2,019,428	5,913,964	5,919,932
Increase (Decrease) in Net Position	94,481	253,116	(248,492)	(287,197)	(154,011)	(34,081)
Net Position Beginning of Year	3,799,175	N/A	7,542,442	N/A	11,341,617	N/A
Net Position End of Year	<u>\$3,893,656</u>	<u>\$3,799,175</u>	<u>\$7,293,950</u>	<u>\$7,542,442</u>	<u>\$11,187,606</u>	<u>\$11,341,617</u>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$331,027 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$370,411. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

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	Governmental Activities	Business-type Activities	Total
Total 2015 program expenses under GASB 68	\$3,920,248	\$1,993,716	\$5,913,964
Pension expense under GASB 68	(329,034)	(41,377)	(370,411)
2015 contractually required contribution	280,192	44,462	324,654
Adjusted 2015 program expenses	3,871,406	1,996,801	5,868,207
Total 2014 program expenses under GASB 27	3,900,504	2,019,428	5,919,932
Increase/Decrease in program expenses not related to pension	(\$29,098)	(\$22,627)	(\$51,725)

Governmental Activities

For governmental activities, there was a decrease in program revenues for 2015. The decrease in operating grants and contributions was due to decreased grant revenues which was partially offset by an increase in capital grants due to an increase in OPWC grant monies. The general revenues remained fairly consistent for 2015. 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 increased from 2014 levels. The slight increase in governmental expenses can be attributed mainly to community environment expenses resulting from a greater amount of infrastructure costs being expensed in 2015 as well as security of persons and property expenses resulting from increased amounts of pension expenditures.

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.

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.

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Table 3
Cost of Services

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2015	2014	2015	2014
General Government	\$451,960	\$648,212	(\$306,868)	(\$513,184)
Security of Persons and Property	2,556,190	2,455,825	(1,877,027)	(1,699,952)
Public Health and Welfare	640	33	(276)	1,417
Leisure Time Activities	24,957	33,768	(18,563)	(26,427)
Community Environment	342,180	41,574	(165,659)	99,463
Transportation	534,111	717,242	103,529	25,712
Basic Utility Services	10,210	3,850	(6,822)	1,502
Total	\$3,920,248	\$3,900,504	(\$2,271,686)	(\$2,111,469)

Business-Type Activities

Business-type activities include the City's water and sewer operations. In 2015, 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.

The City's 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 an increase in fund balance. There was a significant decrease in capital expenditures, and revenues exceeded expenditures for the year. The police levy and street, construction, maintenance and repair special revenue funds saw increases in fund balances as revenues continued to outpace expenditures. The fire levy special revenue fund saw a decrease in fund balance as expenditures exceeded revenues.

Proprietary funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$1,745,224 and total operating expenses of \$1,959,864. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through water and sewer rate increases.

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 2015, the City did not amend its general fund budget. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for

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Unaudited

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 object 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 2015. 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 Long-term Obligations

Capital Assets

Table 4 shows 2015 balances of capital assets as compared to 2014.

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements Furniture, Fixtures and Equipment	388,661	331,559	0	0	388,661	331,559
Vehicles	194,027	234,649	68,025	78,339	262,052	312,988
Infrastructure	250,846	294,056	126,443	150,454	377,289	444,510
	4,885,343	4,614,846	10,164,040	9,990,965	15,049,383	14,605,811
Total Capital Assets	\$5,736,453	\$5,492,686	\$10,403,595	\$10,264,845	\$16,140,048	\$15,757,531

For 2015, the primary additions for governmental activities included the purchase of vehicles as well as building improvements and infrastructure improvements to roads, storm sewers, sidewalks and curbs.

Capital asset additions for business-type activities consisted of water lines infrastructure.

Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

City of Cortland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Long-term Obligations

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	
	2015	2014	2015	2014	2015	2014
OPWC Loans	\$279,197	\$294,289	\$2,543,216	\$2,028,911	\$2,822,413	\$2,323,200
OWDA Loans	0	0	1,020,160	1,070,306	1,020,160	1,070,306
Net Pension Liability	3,329,376	3,144,257	380,407	371,815	3,709,783	3,516,072
Compensated Absences	280,101	272,507	68,398	84,607	348,499	357,114
Total	\$3,888,674	\$3,711,053	\$4,012,181	\$3,555,639	\$7,900,855	\$7,266,692

The City's long-term obligations consist only of net pension liability, 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 2015, the City received additional proceeds on two OPWC loans, for waterline replacement projects phase II and III. Additional information concerning debt issuances can be found in Note 11 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.

City of Cortland, Ohio

Statement of Net Position

December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$788,915	\$537,488	\$1,326,403
Accounts Receivable	294,503	318,279	612,782
Intergovernmental Receivable	435,785	0	435,785
Prepaid Items	32,894	9,506	42,400
Property Taxes Receivable	2,649,381	0	2,649,381
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	5,718,877	10,358,508	16,077,385
<i>Total Assets</i>	<u>9,937,931</u>	<u>11,268,868</u>	<u>21,206,799</u>
Deferred Outflows of Resources			
Pension	427,588	64,759	492,347
Liabilities			
Accounts Payable	2,305	0	2,305
Accrued Wages	4,692	1,734	6,426
Intergovernmental Payable	83,456	19,079	102,535
Long-Term Liabilities:			
Due Within One Year	33,903	216,019	249,922
Due In More Than One Year			
Net Pension Liability (See Note 13)	3,329,376	380,407	3,709,783
Other Amounts	525,395	3,415,755	3,941,150
<i>Total Liabilities</i>	<u>3,979,127</u>	<u>4,032,994</u>	<u>8,012,121</u>
Deferred Inflows of Resources			
Property Taxes	2,486,053	0	2,486,053
Pension	6,683	6,683	13,366
<i>Total Deferred Inflows of Resources</i>	<u>2,492,736</u>	<u>6,683</u>	<u>2,499,419</u>
Net Position			
Net Investment in Capital Assets	5,457,256	6,840,219	12,297,475
Restricted for:			
Capital Projects	215,067	0	215,067
Police	223,043	0	223,043
Fire	261,163	0	261,163
Street Construction, Maintenance and Repair	291,918	0	291,918
Other Purposes	112,791	0	112,791
Unrestricted (Deficit)	(2,667,582)	453,731	(2,213,851)
<i>Total Net Position</i>	<u>\$3,893,656</u>	<u>\$7,293,950</u>	<u>\$11,187,606</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Activities
For the Year Ended December 31, 2015

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$451,960	\$145,092	\$0	\$0
Security of Persons and Property	2,556,190	398,291	280,872	0
Public Health and Welfare	640	364	0	0
Leisure Time Activities	24,957	6,394	0	0
Community Environment	342,180	11,594	164,927	0
Transportation	534,111	0	436,232	201,408
Basic Utility Services	10,210	3,388	0	0
<i>Total Governmental Activities</i>	<u>3,920,248</u>	<u>565,123</u>	<u>882,031</u>	<u>201,408</u>
Business-Type Activities:				
Water	916,994	731,236	0	0
Sewer	1,076,722	985,642	0	0
<i>Total Business-Type Activities</i>	<u>1,993,716</u>	<u>1,716,878</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$5,913,964</u>	<u>\$2,282,001</u>	<u>\$882,031</u>	<u>\$201,408</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 17)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$306,868)	\$0	(\$306,868)
(1,877,027)	0	(1,877,027)
(276)	0	(276)
(18,563)	0	(18,563)
(165,659)	0	(165,659)
103,529	0	103,529
(6,822)	0	(6,822)
<u>(2,271,686)</u>	<u>0</u>	<u>(2,271,686)</u>
0	(185,758)	(185,758)
<u>0</u>	<u>(91,080)</u>	<u>(91,080)</u>
0	(276,838)	(276,838)
<u>(2,271,686)</u>	<u>(276,838)</u>	<u>(2,548,524)</u>
468,881	0	468,881
898,148	0	898,148
773,637	0	773,637
151,353	0	151,353
5,035	0	5,035
69,113	28,346	97,459
<u>2,366,167</u>	<u>28,346</u>	<u>2,394,513</u>
94,481	(248,492)	(154,011)
<u>3,799,175</u>	<u>7,542,442</u>	<u>11,341,617</u>
<u>\$3,893,656</u>	<u>\$7,293,950</u>	<u>\$11,187,606</u>

City of Cortland, Ohio

Balance Sheet

Governmental Funds

December 31, 2015

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$89,753	\$210,489	\$23,674	\$118,251	\$346,748	\$788,915
Receivables:						
Taxes	501,009	1,141,292	1,007,080	0	0	2,649,381
Accounts	14,797	0	279,706	0	0	294,503
Intergovernmental Receivable	75,846	71,395	62,757	189,856	35,931	435,785
Prepaid Items	10,984	8,863	8,853	4,194	0	32,894
<i>Total Assets</i>	<u>\$692,389</u>	<u>\$1,432,039</u>	<u>\$1,382,070</u>	<u>\$312,301</u>	<u>\$382,679</u>	<u>\$4,201,478</u>
Liabilities						
Accounts Payable	\$0	\$2,305	\$0	\$0	\$0	\$2,305
Accrued Wages	822	1,590	1,967	313	0	4,692
Intergovernmental Payable	10,697	30,788	38,342	3,629	0	83,456
<i>Total Liabilities</i>	<u>11,519</u>	<u>34,683</u>	<u>40,309</u>	<u>3,942</u>	<u>0</u>	<u>90,453</u>
Deferred Inflows of Resources						
Property Taxes	470,123	1,070,934	944,996	0	0	2,486,053
Unavailable Revenue	99,712	141,753	123,341	165,176	30,510	560,492
<i>Total Deferred Inflows of Resources</i>	<u>569,835</u>	<u>1,212,687</u>	<u>1,068,337</u>	<u>165,176</u>	<u>30,510</u>	<u>3,046,545</u>
Fund Balances						
Nonspendable	10,984	8,863	8,853	4,194	0	32,894
Restricted	0	175,806	264,571	138,989	297,348	876,714
Committed	0	0	0	0	54,821	54,821
Assigned	88,247	0	0	0	0	88,247
Unassigned	11,804	0	0	0	0	11,804
<i>Total Fund Balances</i>	<u>111,035</u>	<u>184,669</u>	<u>273,424</u>	<u>143,183</u>	<u>352,169</u>	<u>1,064,480</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$692,389</u>	<u>\$1,432,039</u>	<u>\$1,382,070</u>	<u>\$312,301</u>	<u>\$382,679</u>	<u>\$4,201,478</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, 2015*

Total Governmental Fund Balances	\$1,064,480
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*Amounts reported for governmental activities in the
 statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,736,453
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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	163,328
Intergovernmental	397,164
Total	560,492

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.	
Deferred Outflows - Pension	427,588
Deferred Inflows - Pension	(6,683)
Net Pension Liability	(3,329,376)
Total	(2,908,471)

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
OPWC Loans Payable	(279,197)
Compensated Absences	(280,101)
Total	(559,298)

<i>Net Position of Governmental Activities</i>	<u><u>\$3,893,656</u></u>
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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, 2015

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$473,754	\$896,110	\$770,269	\$0	\$0	\$2,140,133
Charges for Services	94,768	0	384,682	0	0	479,450
Licenses and Permits	76,057	0	0	0	0	76,057
Fines and Forfeitures	8,925	0	0	0	691	9,616
Intergovernmental	145,021	142,790	122,514	328,830	449,271	1,188,426
Interest	4,410	0	0	511	114	5,035
Contributions and Donations	0	0	100	0	0	100
Other	9,282	36,525	19,573	3,289	444	69,113
<i>Total Revenues</i>	<u>812,217</u>	<u>1,075,425</u>	<u>1,297,138</u>	<u>332,630</u>	<u>450,520</u>	<u>3,967,930</u>
Expenditures						
Current:						
General Government	570,761	0	0	0	0	570,761
Security of Persons and Property	51,842	1,025,704	1,314,797	0	18,438	2,410,781
Public Health Services	0	0	0	0	640	640
Leisure Time Activities	24,957	0	0	0	0	24,957
Community Environment	45,253	0	0	0	296,927	342,180
Transportation	0	0	0	237,574	15,704	253,278
Basic Utility Services	13,222	0	0	0	0	13,222
Capital Outlay	85,850	0	0	80,809	325,101	491,760
Debt Service:						
Principal Retirement	15,092	0	0	0	0	15,092
<i>Total Expenditures</i>	<u>806,977</u>	<u>1,025,704</u>	<u>1,314,797</u>	<u>318,383</u>	<u>656,810</u>	<u>4,122,671</u>
<i>Net Change in Fund Balance</i>	5,240	49,721	(17,659)	14,247	(206,290)	(154,741)
<i>Fund Balances</i>						
<i>Beginning 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>
<i>Fund Balances End of Year</i>	<u>\$111,035</u>	<u>\$184,669</u>	<u>\$273,424</u>	<u>\$143,183</u>	<u>\$352,169</u>	<u>\$1,064,480</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, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$154,741)

*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	847,226	
Current Year Depreciation	(596,817)	
Total		250,409

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. (6,642)

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

Delinquent Property Taxes	533	
Intergovernmental	46,266	
Total		46,799

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 280,192

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (329,034)

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. 15,092

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. (7,594)

Change in Net Position of Governmental Activities \$94,481

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$474,326	\$474,326	\$473,754	(\$572)
Charges for Services	89,300	89,300	79,851	(9,449)
Licenses and Permits	84,400	84,400	76,057	(8,343)
Fines and Forfeitures	10,000	10,000	9,472	(528)
Intergovernmental	144,172	144,172	143,818	(354)
Interest	6,500	6,500	5,052	(1,448)
Other	24,900	24,900	9,282	(15,618)
<i>Total Revenues</i>	<u>833,598</u>	<u>833,598</u>	<u>797,286</u>	<u>(36,312)</u>
Expenditures				
Current:				
General Government	658,502	658,502	586,988	71,514
Security of Persons and Property	53,000	53,000	51,842	1,158
Leisure Time Activities	30,500	30,500	24,957	5,543
Community Environment	52,357	52,358	44,881	7,477
Basic Utility Services	15,050	15,050	13,222	1,828
Capital Outlay	122,700	122,700	85,850	36,850
Debt Service:				
Principal Retirement	15,100	15,100	15,092	8
<i>Total Expenditures</i>	<u>947,209</u>	<u>947,210</u>	<u>822,832</u>	<u>124,378</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(113,611)</u>	<u>(113,612)</u>	<u>(25,546)</u>	<u>88,066</u>
Other Financing Sources (Uses)				
Advances In	185,000	100,000	100,000	0
Advances Out	(185,000)	(100,000)	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(113,611)	(113,612)	(25,546)	88,066
<i>Fund Balance Beginning of Year</i>	102,725	102,725	102,725	0
Prior Year Encumbrances Appropriated	10,887	10,887	10,887	0
<i>Fund Balance End of Year</i>	<u>\$1</u>	<u>\$0</u>	<u>\$88,066</u>	<u>\$88,066</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$897,589	\$897,589	\$896,110	(\$1,479)
Intergovernmental	144,000	144,000	142,790	(1,210)
Other	71,000	36,000	36,525	525
<i>Total Revenues</i>	1,112,589	1,077,589	1,075,425	(2,164)
Expenditures				
Current:				
Security of Persons and Property	1,307,208	1,272,208	1,081,806	190,402
<i>Net Change in Fund Balance</i>	(194,619)	(194,619)	(6,381)	188,238
<i>Fund Balance Beginning of Year</i>	194,619	194,619	194,619	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$188,238</u>	<u>\$188,238</u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$766,718	\$766,718	\$770,269	\$3,551
Charges for Services	314,000	314,000	323,954	9,954
Intergovernmental	125,000	125,000	122,514	(2,486)
Contributions and Donations	1,000	1,000	100	(900)
Other	20,000	20,000	19,573	(427)
<i>Total Revenues</i>	<u>1,226,718</u>	<u>1,226,718</u>	<u>1,236,410</u>	<u>9,692</u>
Expenditures				
Current:				
Security of Persons and Property	1,373,011	1,373,011	1,359,083	13,928
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(146,293)</u>	<u>(146,293)</u>	<u>(122,673)</u>	<u>23,620</u>
Other Financing Sources (Uses)				
Advances In	15,000	100,000	100,000	0
Advances Out	(15,000)	(100,000)	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(146,293)	(146,293)	(122,673)	23,620
<i>Fund Balance Beginning of Year</i>	145,593	145,593	145,593	0
Prior Year Encumbrances Appropriated	700	700	700	0
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$23,620</u></u>	<u><u>\$23,620</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, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$319,000	\$319,000	\$331,188	\$12,188
Interest	500	500	511	11
Other	500	500	3,289	2,789
<i>Total Revenues</i>	320,000	320,000	334,988	14,988
Expenditures				
Current:				
Transportation	316,205	316,205	242,133	74,072
Capital Outlay	110,000	110,000	80,809	29,191
<i>Total Expenditures</i>	426,205	426,205	322,942	103,263
<i>Net Change in Fund Balance</i>	(106,205)	(106,205)	12,046	118,251
<i>Fund Balance Beginning of Year</i>	106,205	106,205	106,205	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$118,251	\$118,251

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Fund Net Position
Enterprise Funds
December 31, 2015

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$311,070	\$226,418	\$537,488
Accounts Receivable	131,543	186,736	318,279
Prepaid Items	4,753	4,753	9,506
<i>Total Current Assets</i>	<u>447,366</u>	<u>417,907</u>	<u>865,273</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	5,979,243	4,379,265	10,358,508
<i>Total Noncurrent Assets</i>	<u>6,023,643</u>	<u>4,379,952</u>	<u>10,403,595</u>
<i>Total Assets</i>	<u>6,471,009</u>	<u>4,797,859</u>	<u>11,268,868</u>
Deferred Outflows of Resources			
Pension	31,085	33,674	64,759
Liabilities			
<i>Current Liabilities:</i>			
Accrued Wages	928	806	1,734
Intergovernmental Payable	9,539	9,540	19,079
Compensated Absences Payable	3,804	3,803	7,607
OPWC Loans Payable	156,649	0	156,649
OWDA Loans Payable	51,763	0	51,763
<i>Total Current Liabilities</i>	<u>222,683</u>	<u>14,149</u>	<u>236,832</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	31,769	29,022	60,791
OPWC Loans Payable	2,386,567	0	2,386,567
OWDA Loans Payable	968,397	0	968,397
Net Pension Liability	182,595	197,812	380,407
<i>Total Long-Term Liabilities</i>	<u>3,569,328</u>	<u>226,834</u>	<u>3,796,162</u>
<i>Total Liabilities</i>	<u>3,792,011</u>	<u>240,983</u>	<u>4,032,994</u>
Deferred Inflows of Resources			
Pension	3,208	3,475	6,683
Net Position			
Net Investment in Capital Assets	2,460,267	4,379,952	6,840,219
Unrestricted	246,608	207,123	453,731
<i>Total Net Position</i>	<u>\$2,706,875</u>	<u>\$4,587,075</u>	<u>\$7,293,950</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, 2015*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$723,296	\$981,188	\$1,704,484
Tap-In Fees	7,940	4,454	12,394
Other	21,546	6,800	28,346
<i>Total Operating Revenues</i>	<u>752,782</u>	<u>992,442</u>	<u>1,745,224</u>
Operating Expenses			
Personal Services	327,106	337,889	664,995
Materials and Supplies	71,325	35,124	106,449
Contractual Services	301,397	512,639	814,036
Depreciation	183,314	191,070	374,384
<i>Total Operating Expenses</i>	<u>883,142</u>	<u>1,076,722</u>	<u>1,959,864</u>
<i>Operating Income (Loss)</i>	(130,360)	(84,280)	(214,640)
Non-Operating Revenues (Expenses)			
Interest and Fiscal Charges	(33,852)	0	(33,852)
<i>Change in Net Position</i>	(164,212)	(84,280)	(248,492)
<i>Net Position Beginning of Year (Restated - See Note 17)</i>	<u>2,871,087</u>	<u>4,671,355</u>	<u>7,542,442</u>
<i>Net Position End of Year</i>	<u><u>\$2,706,875</u></u>	<u><u>\$4,587,075</u></u>	<u><u>\$7,293,950</u></u>

See accompanying notes to the basic financial statements

City of Cortland, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2015

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$663,930	\$902,576	\$1,566,506
Tap In Fees	7,940	4,454	12,394
Other Operating Revenues	21,546	6,800	28,346
Cash Payments to Suppliers for Materials and Supplies	(76,081)	(35,124)	(111,205)
Cash Payments for Employee Services and Benefits	(349,559)	(355,546)	(705,105)
Cash Payments for Contractual Services	(301,257)	(512,499)	(813,756)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(33,481)</u>	<u>10,661</u>	<u>(22,820)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(513,134)	0	(513,134)
OPWC Loans Issued	673,380	0	673,380
Principal Paid on OPWC Loans	(146,447)	(12,628)	(159,075)
Principal Paid on OWDA Loans	(50,146)	0	(50,146)
Interest Paid on OWDA Loans	(33,852)	0	(33,852)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(70,199)</u>	<u>(12,628)</u>	<u>(82,827)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(103,680)	(1,967)	(105,647)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>414,750</u>	<u>228,385</u>	<u>643,135</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$311,070</u></u>	<u><u>\$226,418</u></u>	<u><u>\$537,488</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	<u>(\$130,360)</u>	<u>(\$84,280)</u>	<u>(\$214,640)</u>
Adjustments:			
Depreciation	183,314	191,070	374,384
(Increase) Decrease in Assets and Deferred Outflows:			
Accounts Receivable	(59,366)	(78,612)	(137,978)
Prepaid Items	140	140	280
Deferred Outflow - Pension	3,366	3,646	7,012
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	(4,756)	0	(4,756)
Accrued Wages	(6,593)	(6,758)	(13,351)
Intergovernmental Payable	(3,396)	(4,069)	(7,465)
Compensated Absences Payable	(10,983)	(5,226)	(16,209)
Net Pension Liability	(3,366)	(3,646)	(7,012)
Deferred Inflow - Pension	(1,481)	(1,604)	(3,085)
<i>Total Adjustments</i>	<u>96,879</u>	<u>94,941</u>	<u>191,820</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>(\$33,481)</u></u>	<u><u>\$10,661</u></u>	<u><u>(\$22,820)</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, 2015

Note 1 - Reporting Entity

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

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

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

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

The City participates in the Eastgate Regional Council of Governments and the Emergency Management Agency. These are jointly governed organizations and are presented in Note 15 to the basic financial statements.

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, 2015

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, 2015

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.

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

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred 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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 13.

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 until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 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. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13)

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, 2015

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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".

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2015 amounted to \$4,410 which includes \$4,069 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, 2015, 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, 2015

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, compensated absences and net pension liability 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, 2015

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. City Council assigned fund balance to cover a gap between estimated revenues and appropriations in 2016’s budget.

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, 2015

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.

Budgetary Process

All 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 object 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 - 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>Nonspendable</i>						
Prepays	\$10,984	\$8,863	\$8,853	\$4,194	\$0	\$32,894
<i>Restricted for</i>						
Public Safety	0	175,806	264,571	0	4,820	445,197
Street Maintenance	0	0	0	138,989	32,627	171,616
Community Improvement	0	0	0	0	44,834	44,834
Capital Improvements	0	0	0	0	215,067	215,067
<i>Total Restricted</i>	0	175,806	264,571	138,989	297,348	876,714
<i>Committed to</i>						
Capital Improvements	0	0	0	0	54,821	54,821
<i>Assigned to</i>						
2016 Operations	88,156	0	0	0	0	88,156
Purchases on Order:						
Contracted Services	91	0	0	0	0	91
<i>Total Assigned</i>	88,247	0	0	0	0	88,247
<i>Unassigned</i>	11,804	0	0	0	0	11,804
<i>Total Fund Balances</i>	\$111,035	\$184,669	\$273,424	\$143,183	\$352,169	\$1,064,480

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances (Non-GAAP

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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.
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:

Net Change in Fund Balances

	General	Police Levy	Fire Levy	Street Construction, Maintenance and Repair
GAAP Basis	\$5,240	\$49,721	(\$17,659)	\$14,247
Net Adjustments for Revenue Accruals	(15,281)	0	(60,728)	2,358
Beginning Unrecorded Cash	1,946	0	0	0
Ending Unrecorded Cash	(1,596)	0	0	0
Advances In	100,000	0	100,000	0
Net Adjustments for Expenditure Accruals	(15,764)	(33,851)	(44,232)	(4,559)
Advances Out	(100,000)	0	(100,000)	0
Encumbrances	(91)	(22,251)	(54)	0
Budget Basis	<u>(\$25,546)</u>	<u>(\$6,381)</u>	<u>(\$122,673)</u>	<u>\$12,046</u>

Note 5 - Deposits

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.

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

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

Interim monies 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.

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, \$487,944 of the City's bank balance of \$1,400,999 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 of Cortland, Ohio
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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.

Note 6 - Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of 2014 taxes.

2015 real property taxes were levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$19.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2015 property tax receipts were based are as follows:

Real Property	\$130,049,030
Public Utility Personal Property	<u>2,191,290</u>
Total	<u><u>\$132,240,320</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, 2015, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2015 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 7 - Receivables

Receivables at December 31, 2015, 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.

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A summary of the principal items of intergovernmental receivables follows:

	Amount
Gasoline Tax	\$174,214
Homestead and Rollback	170,110
Auto License	51,573
Local Government	36,841
Fowler Township	1,500
Estate Tax	1,233
Trumbull County Court	314
Total	\$435,785

Note 8 - Contingencies

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2015.

Litigation

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

Note 9 - 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 2015, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Trident Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	2,000,000
Argonaut Insurance Group	Commercial Property	4,907,232
	Public Employee Dishonesty	25,000
	Forgery	2,500
	Theft, Disappearance and Destruction:	
	Inside the Premises	7,000
Outside the Premises	7,000	
Cincinnati Insurance Company	Bonds - Employees and Officials	25,000
American Alternative Insurance Corporation	General Fire Liability/Rescue	2,000,000

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

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

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/14	Additions	Reductions	Balance 12/31/15
Governmental Activities:				
Capital assets not being depreciated				
Land	\$17,576	\$0	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	969,672	75,000	0	1,044,672
Furniture, Fixtures and Equipment	773,219	0	0	773,219
Vehicles	1,220,283	19,930	0	1,240,213
Infrastructure:				
Roads	4,216,683	299,175	(112,905)	4,402,953
Storm Sewers	1,870,559	101,169	0	1,971,728
Sidewalks	550,337	311,029	0	861,366
Curbs	788,430	40,923	0	829,353
Total capital assets being depreciated	10,389,183	847,226	(112,905)	11,123,504
Accumulated depreciation				
Buildings and Improvements	(638,113)	(17,898)	0	(656,011)
Furniture, Fixtures and Equipment	(538,570)	(40,622)	0	(579,192)
Vehicles	(926,227)	(63,140)	0	(989,367)
Infrastructure:				
Roads	(2,494,144)	(397,601)	106,263	(2,785,482)
Storm Sewers	(186,851)	(39,435)	0	(226,286)
Sidewalks	(59,442)	(21,534)	0	(80,976)
Curbs	(70,726)	(16,587)	0	(87,313)
Total accumulated depreciation	(4,914,073)	(596,817) *	106,263	(5,404,627)
Capital assets being depreciated, net	5,475,110	250,409	(6,642)	5,718,877
Governmental activities capital assets, net	\$5,492,686	\$250,409	(\$6,642)	\$5,736,453

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

	Balance 12/31/14	Additions	Reductions	Balance 12/31/15
Business type Activities:				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Capital assets being depreciated				
Furniture, Fixtures and Equipment	226,444	0	0	226,444
Vehicles	328,123	0	0	328,123
Infrastructure:				
Water Lines	8,420,590	513,134	(33,954)	8,899,770
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	18,124,732	513,134	(33,954)	18,603,912
Accumulated depreciation				
Furniture, Fixtures and Equipment	(148,105)	(10,314)	0	(158,419)
Vehicles	(177,669)	(24,011)	0	(201,680)
Infrastructure:				
Water Lines	(2,841,796)	(172,842)	33,954	(2,980,684)
Sewer Lines	(4,737,404)	(167,217)	0	(4,904,621)
Total accumulated depreciation	(7,904,974)	(374,384)	33,954	(8,245,404)
Capital assets being depreciated, net	10,219,758	138,750	0	10,358,508
Business type Activities capital assets, net	\$10,264,845	\$138,750	\$0	\$10,403,595

* Depreciation expense was charged to governmental activities as follows:

General Government	\$66,886
Security of Persons and Property	74,236
Transportation	416,260
Basic Utility Services	39,435
Total	\$596,817

City of Cortland, Ohio
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For the Year Ended December 31, 2015

Note 11 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business-Type Activities			
<i>Ohio Public Works Commission Loans:</i>			
North High Street - 1998	0%	352,685	2017
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%	407,996	2035
Downtown Waterline Replacement Phase III - 2015	0%	N/A	N/A
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	1,233,794	2031
Governmental Activities			
<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 2015 were as follows:

	Outstanding 12/31/2014	Additions	Reductions	Outstanding 12/31/2015	Due Within One Year
Business Type Activities					
Ohio Public Works Commission Loans					
North High Street	\$52,903	\$0	\$17,634	\$35,269	\$17,635
South Mecca Sanitary Sewer	12,628	0	12,628	0	0
Southern Waterline	205,562	0	16,445	189,117	16,445
North High Street II Waterline	362,100	0	24,140	337,960	24,140
Willow Park Tank Replacement	746,300	0	43,900	702,400	43,900
North Wellfield Interconnect	225,053	0	13,238	211,815	13,239
Downtown Waterline Replacement	396,910	0	20,890	376,020	20,890
Downtown Waterline Replacement Phase II	27,455	380,541	10,200	397,796	20,400
Downtown Waterline Replacement Phase III	0	292,839	0	292,839	0
<i>Total OPWC Loans</i>	<u>2,028,911</u>	<u>673,380</u>	<u>159,075</u>	<u>2,543,216</u>	<u>156,649</u>
Ohio Water Development Authority Loan					
Water Storage Tank	1,070,306	0	50,146	1,020,160	51,763
Other Long-Term Liabilities					
Net Pension Liability OPERS:					
Water	178,471	4,124	0	182,595	0
Sewer	193,344	4,468	0	197,812	0
<i>Total Net Pension Liability</i>	<u>371,815</u>	<u>8,592</u>	<u>0</u>	<u>380,407</u>	<u>0</u>
Compensated Absences	84,607	12,429	28,638	68,398	7,607
<i>Total Other Long-Term Liabilities</i>	<u>456,422</u>	<u>21,021</u>	<u>28,638</u>	<u>448,805</u>	<u>7,607</u>
<i>Total Business Type Activities</i>	<u>\$3,555,639</u>	<u>\$694,401</u>	<u>\$237,859</u>	<u>\$4,012,181</u>	<u>\$216,019</u>

City of Cortland, Ohio
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	Outstanding 12/31/2014	Additions	Reductions	Outstanding 12/31/2015	Due Within One Year
Governmental Type Activities					
Ohio Public Works Commission Loans					
South Colonial Storm Sewer	\$294,289	\$0	\$15,092	\$279,197	\$15,092
Net Pension Liability					
OPERS	371,816	8,592	0	380,408	0
OP&F	2,772,441	176,527	0	2,948,968	0
<i>Total Net Pension Liability</i>	<u>3,144,257</u>	<u>185,119</u>	<u>0</u>	<u>3,329,376</u>	<u>0</u>
Compensated Absences	272,507	62,438	54,844	280,101	18,811
<i>Total Governmental Type Activities</i>	<u>\$3,711,053</u>	<u>\$247,557</u>	<u>\$69,936</u>	<u>\$3,888,674</u>	<u>\$33,903</u>

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 pays obligations related to employee compensation from the fund benefitting from their service.

The City's overall legal debt margin was \$13,606,037 at December 31, 2015. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015, are as follows:

A line of credit has been established with the Ohio Public Works Commission in the amount of \$366,250 for the Downtown Waterline Replacement Phase III 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, 2015, the City has received \$292,839 in proceeds.

Business Type Activities

Year	OPWC Loans		OWDA Loan	
	Principal		Principal	Interest
2016	\$156,649		\$51,763	\$32,234
2017	156,648		53,434	30,564
2018	139,013		55,156	28,841
2019	139,013		56,936	27,062
2020	139,013		58,772	25,225
2021-2025	695,067		323,551	96,438
2026-2030	613,367		379,210	40,780
2031-2035	211,607		41,338	660
Total	<u>\$2,250,377</u>		<u>\$1,020,160</u>	<u>\$281,804</u>

City of Cortland, Ohio
Notes to the Basic Financial Statements
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Governmental Activities

Year	OPWC Loans Principal
2016	\$15,092
2017	15,092
2018	15,092
2019	15,092
2020	15,092
2021-2025	75,460
2026-2030	75,458
2031-2034	52,819
Total	\$279,197

Note 12 - Compensated Absences

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

Note 13 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

City of Cortland, Ohio
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GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

City of Cortland, Ohio
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For the Year Ended December 31, 2015

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$88,924 for 2015. Of this amount, \$13,022 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

City of Cortland, Ohio
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For the Year Ended December 31, 2015

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
2015 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$235,730 for 2015. Of this amount \$29,857 is reported as an intergovernmental payable.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$760,815	\$2,948,968	\$3,709,783
Proportion of the Net Pension Liability	0.0063080%	0.0569253%	
Pension Expense	\$82,753	\$287,658	\$370,411

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$40,595	\$127,098	\$167,693
City contributions subsequent to the measurement date	<u>88,924</u>	<u>235,730</u>	<u>324,654</u>
Total Deferred Outflows of Resources	<u>\$129,519</u>	<u>\$362,828</u>	<u>\$492,347</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$13,366</u>	<u>\$0</u>	<u>\$13,366</u>

\$324,654 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2016	\$3,982	\$31,774	\$35,756
2017	3,982	31,774	35,756
2018	9,117	31,774	40,891
2019	<u>10,148</u>	<u>31,776</u>	<u>41,924</u>
Total	<u>\$27,229</u>	<u>\$127,098</u>	<u>\$154,327</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$1,399,682	\$760,815	\$222,735

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	120.00 %	

* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$4,078,869	\$2,948,968	\$1,992,285

Note 14 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The 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, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment 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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate 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 postemployment health care benefits. The portion of the 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 contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014 and 2013 were \$14,820, \$13,810 and \$6,655 respectively. For 2015, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

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.

Police and Fire Pension Fund

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

OPF provides access to postretirement 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 Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (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.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at 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 the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, 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 premium reimbursements administered 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 contribution made to 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 .5 percent of covered payroll. The amount of employer contribution 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 is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$2,645 and \$2,877 for the year ended December 31, 2015, \$2,702 and \$2,885 for the year ended December 31, 2014, and \$18,262 and \$18,005 for the year ended December 31, 2013. For 2015, 97.44 percent has been contributed for police and 97.92 percent has been contributed for firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Note 15 - 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 2015, the City contributed \$7,156 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 2015, the City did not contribute to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.

Note 16 – 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>	
General	\$91
Police Levy	22,251
Fire Levy	54
Other Governmental Funds	<u>1,434</u>
Total Governmental Funds	<u><u>\$23,830</u></u>

Note 17 – Change in Accounting Principle and Restatement of Net Position

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

City of Cortland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

	Governmental Activities	Business -Type Activities
Net Position December 31, 2014	\$6,658,804	\$7,867,858
Adjustments:		
Net Pension Liability	(3,144,257)	(371,815)
Deferred Outflow - Payments Subsequent to Measurement Date	284,628	46,399
Restated Net Position December 31, 2014	\$3,799,175	\$7,542,442

	Water Fund	Sewer Fund	Total Enterprise
Net Position December 31, 2014	\$3,027,286	\$4,840,572	\$7,867,858
Adjustments:			
Net Pension Liability	(178,471)	(193,344)	(371,815)
Deferred Outflow - Payments Subsequent to Measurement Date	22,272	24,127	46,399
Restated Net Position December 31, 2014	\$2,871,087	\$4,671,355	\$7,542,442

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Required Supplementary Information

City of Cortland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Two Years (1)

	2015	2014
City's Proportion of the Net Pension Liability	0.0063080%	0.0063080%
City's Proportionate Share of the Net Pension Liability	\$760,815	\$743,631
City's Covered-Employee Payroll	\$773,317	\$652,104
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.38%	114.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.

City of Cortland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Two Years (1)

	2015	2014
City's Proportion of the Net Pension Liability	0.0569253%	0.0569253%
City's Proportionate Share of the Net Pension Liability	\$2,948,968	\$2,772,441
City's Covered-Employee Payroll	\$1,117,497	\$1,002,768
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	263.89%	276.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.

City of Cortland, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$88,924	\$92,798	\$84,773
Contributions in Relation to the Contractually Required Contribution	<u>(88,924)</u>	<u>(92,798)</u>	<u>(84,773)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$741,031	\$773,317	\$652,104
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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City of Cortland, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$235,730	\$238,229	\$181,676	\$153,278
Contributions in Relation to the Contractually Required Contribution	<u>(235,730)</u>	<u>(238,229)</u>	<u>(181,676)</u>	<u>(153,278)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,104,393	\$1,117,497	\$1,002,768	\$1,012,026
Contributions as a Percentage of Covered-Employee Payroll:	21.34%	21.32%	18.12%	15.15%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$161,665	\$151,513	\$149,066	\$148,089	\$140,590	\$123,225
<u>(161,665)</u>	<u>(151,513)</u>	<u>(149,066)</u>	<u>(148,089)</u>	<u>(140,590)</u>	<u>(123,225)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,076,167	\$1,007,856	\$991,580	\$987,131	\$940,551	\$883,484
15.02%	15.03%	15.03%	15.00%	14.95%	13.95%

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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, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2017.

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 opinions 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 certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

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. We consider finding 2015-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2015-002 described in the accompanying schedule of findings to be a significant deficiency.

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

Entity's Response to Findings

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 report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 11, 2017

**CITY OF CORTLAND
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

1. FINANCIAL INFORMATION

<i>Finding Number</i>	2015-001
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MATERIAL WEAKNESS

Ohio Administrative Code Chapter 117-2-01(A)(B)(1) provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. "Internal control" means a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting.

In 2015, the control procedures over financial information failed to recognize the following errors related to the preparation and review of the financial statements. The City has made all required adjustments to their financial statements for the following material errors:

- The City did not account for advances on the Statement of Revenues, Expenditures and Changes In Fund Balance - Budget (Non-GAAP Basis) and Actual Fire Levy Fund. The omission understated Original Budgeted Advances In and Out in the amounts of \$15,000 respectively. The Final Budgeted and Actual Advances In and Out were understated in the amounts of \$100,000 respectively.
- The City did not include assigned fund balance for 2016 General Fund appropriations exceeding budgeted receipts. The City's Certificate of Estimated Resources listed total resources of \$929,967.36 whereas total appropriations were \$1,018,123.74. This understated the assigned fund balance in the amount of \$88,156.
- The City did not account for the utility services provided to customers but unbilled as of the end of the year. As a result, the City's accounts receivable balances were understated in the General, Water, and Sewer funds by \$14,797, \$62,745, and \$83,538, respectively.

In 2015, the control procedures over the review of revenue and disbursement transactions failed to recognize other immaterial errors related to posting classifications. The following immaterial errors were not adjusted on the City's financial statements:

- The City received local levy motor vehicle license tax revenue in the amount of \$39,189. This amount was posted as intergovernmental revenue instead of permissive tax revenue in the Permissive Tax Fund. The City also recorded the related accrual as an intergovernmental receivable instead of permissive taxes receivable in the amount of \$20,537 and accrued revenue of \$3,420 as intergovernmental revenue instead of permissive tax revenue.
- The City received State homestead and rollback and County cigarette tax in the amount \$3,054. This amount was posted as property tax instead of intergovernmental revenue in the General Fund.

**Finding Number 2015 -001
 (Continued)**

The City lacked adequate internal controls to make sure financial information was reported properly and transactions were posted properly.

The City should improve its control procedures to help ensure all amounts are properly recorded in the accounting system, trial balances, and related financial statements.

Official’s Response: The City is changing budgetary software. This will solve the problem.

2. INTERFUND ADVANCES

<i>Finding Number</i>	2015-002
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SIGNIFICANT DEFICIENCY

Auditor of State Bulletin 97-003 states that although interfund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current year. Cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer.
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established.
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement.
- Advances must be approved by a formal resolution of the taxing authority of the subdivision. The resolution must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

The City made advances from the Water Fund, in the amount of \$200,000, to the General and Fire Funds, in the amounts of \$100,000 each respectively.

In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established. Water fund revenue is designated for the operations of the water department and should not be used for General and Fire Fund activity.

The advance transactions have been eliminated on the financial statements and the advances were repaid to the Water Fund in 2015.

The City should only advance monies in accordance with Auditor of State Bulletin 97-003.

Official’s Response: The City will only advance from the General Fund.



City of Cortland

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2015

Finding Number	Finding Summary	Status	Additional Information
2014-001	Issue II grant funds not recorded or reported by City	Fully Corrected	

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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
JANUARY 18, 2018