



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF CORTLAND  
TRUMBULL COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



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## 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 years ended December 31, 2018 and 2017, 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 such 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, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, Police Levy, and Fire Levy funds thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 16 to the 2018 financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 November 14, 2019, 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.



Keith Faber  
Auditor of State

Columbus, Ohio

November 14, 2019

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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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, 2018. 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 increased during 2018 due to an increase in cash and cash equivalents and a decrease in the net pension liability. The increase in net position was partially offset by a decrease in net capital assets attributable to annual depreciation exceeding current year additions as well as to an increase in long-term obligations relating to general obligation bonds, OPWC loans and the net OPEB liability.
- The City received additional OPWC monies in 2018 for the South Mecca Waterline Replacement project which was finalized during the year.
- In 2018, capital asset additions consisted of the purchase of furniture, fixtures, equipment, vehicles and infrastructure improvements to roads, storm sewers and waterlines.

***Using this Annual Financial Report***

This discussion and analysis is intended to serve as an introduction to the City of Cortland's basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The Statement of Net 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 2018?" 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.

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.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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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 and fire levy special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

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**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 2018 compared to 2017.

\*Note, amounts presented are after deferred inflows and deferred outflows related to the change in internal proportionate share of pension-related items have been eliminated.

**Table 1**  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018*	Restated 2017	2018*	Restated 2017
<b>Assets</b>						
Current and Other Assets	\$5,446,730	\$4,640,492	\$1,444,718	\$1,234,390	\$6,891,448	\$5,874,882
Capital Assets, Net	5,564,699	5,568,374	10,034,339	10,046,527	15,599,038	15,614,901
<i>Total Assets</i>	<u>11,011,429</u>	<u>10,208,866</u>	<u>11,479,057</u>	<u>11,280,917</u>	<u>22,490,486</u>	<u>21,489,783</u>
<b>Deferred Outflows of Resources</b>						
Pension	576,911	805,697	137,896	287,999	706,960	1,093,696
OPEB	331,704	9,421	29,519	4,488	357,716	13,909
<i>Total Deferred Outflows of Resources</i>	<u>908,615</u>	<u>815,118</u>	<u>167,415</u>	<u>292,487</u>	<u>1,064,676</u>	<u>1,107,605</u>
<b>Liabilities</b>						
Current Liabilities	83,185	72,742	70,691	39,923	153,876	112,665
Long-Term Liabilities						
Due Within One Year	142,912	79,453	259,574	236,100	402,486	315,553
Due in More Than One Year						
Net Pension Liability	3,677,050	3,989,254	522,742	739,506	4,199,792	4,728,760
Net OPEB Liability	3,298,645	2,798,458	350,190	320,534	3,648,835	3,118,992
Other Amounts	666,871	509,673	3,455,336	3,395,232	4,122,207	3,904,905
<i>Total Liabilities</i>	<u>\$7,868,663</u>	<u>\$7,449,580</u>	<u>\$4,658,533</u>	<u>\$4,731,295</u>	<u>\$12,527,196</u>	<u>\$12,180,875</u>

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**Table 1**  
*Net Position (continued)*

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018*	Restated 2017	2018*	Restated 2017
<b>Deferred Inflows of Resources</b>						
Property Taxes	\$2,613,440	\$2,601,795	\$0	\$0	\$2,613,440	\$2,601,795
Pension	345,510	167,917	124,138	6,062	461,801	173,979
OPEB	72,150	0	26,086	0	94,729	0
<i>Total Deferred Inflows of Resources</i>	<u>3,031,100</u>	<u>2,769,712</u>	<u>150,224</u>	<u>6,062</u>	<u>3,169,970</u>	<u>2,775,774</u>
<b>Net Position</b>						
Net Investment in Capital Assets	5,206,478	5,319,361	6,386,221	6,485,745	11,592,699	11,805,106
Restricted for:						
Capital Projects	146,626	140,808	0	0	146,626	140,808
Police	326,298	371,762	0	0	326,298	371,762
Fire	503,031	238,601	0	0	503,031	238,601
Street Construction, Maintenance and Repair	384,747	297,872	0	0	384,747	297,872
Other Purposes	236,081	171,292	0	0	236,081	171,292
Unrestricted (Deficit)	(5,782,980)	(5,735,004)	451,494	350,302	(5,331,486)	(5,384,702)
<i>Total Net Position</i>	<u>\$1,020,281</u>	<u>\$804,692</u>	<u>\$6,837,715</u>	<u>\$6,836,047</u>	<u>\$7,857,996</u>	<u>\$7,640,739</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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



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*Management's Discussion and Analysis*  
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GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City’s statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan’s *change* in net pension liability (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$10,745,822 to \$7,640,739.

Total assets for governmental activities increased due to an increase in cash and cash equivalents resulting from an increase in charges for services and grants revenue as well as to a drop in general government expenses. Current liabilities increased due to increases in accounts payable and accrued wages. The increase in long-term liabilities was due to the issuance of general obligation bonds as well as to an increase in the net OPEB liability.

Total assets for business-type activities increased due to an increase in cash and cash equivalents as cash basis revenues from utility charges for services continued to exceed cash basis expenses. Total liabilities for business-type activities decreased due to a decreases in the net pension liability and OWDA loans payable.

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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 2018 compared to 2017.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$628,318	\$549,199	\$2,013,184	\$2,111,218	\$2,641,502	\$2,660,417
Operating Grants and Contributions	768,479	605,648	0	0	768,479	605,648
Capital Grants	125,790	218,246	0	0	125,790	218,246
Total Program Revenues	<u>1,522,587</u>	<u>1,373,093</u>	<u>2,013,184</u>	<u>2,111,218</u>	<u>3,535,771</u>	<u>3,484,311</u>
General Revenues						
Property Taxes	2,563,640	2,547,567	0	0	2,563,640	2,547,567
Local Permissive Taxes	132,106	120,151	0	0	132,106	120,151
Grants and Entitlements	308,742	133,989	0	0	308,742	133,989
Investment Earnings	14,273	1,206	0	0	14,273	1,206
Gain on Sale of Capital Assets	13,884	4,772	1,337	4,250	15,221	9,022
Other	41,652	137,502	28,543	41,626	70,195	179,128
Total General Revenues	<u>3,074,297</u>	<u>2,945,187</u>	<u>29,880</u>	<u>45,876</u>	<u>3,104,177</u>	<u>2,991,063</u>
<i>Total Revenues</i>	<u>4,596,884</u>	<u>4,318,280</u>	<u>2,043,064</u>	<u>2,157,094</u>	<u>6,639,948</u>	<u>6,475,374</u>
<b>Program Expenses</b>						
General Government	664,307	770,999	0	0	664,307	770,999
Security of Persons and Property	3,024,087	3,022,424	0	0	3,024,087	3,022,424
Public Health and Welfare	18,129	177	0	0	18,129	177
Leisure Time Activities	31,330	33,672	0	0	31,330	33,672
Community Environment	29,407	20,731	0	0	29,407	20,731
Transportation	567,927	564,385	0	0	567,927	564,385
Basic Utility Services	40,636	21,499	0	0	40,636	21,499
Interest and Fiscal Charges	5,472	0	0	0	5,472	0
Water	0	0	879,201	799,933	879,201	799,933
Sewer	0	0	1,162,195	1,204,043	1,162,195	1,204,043
Total Program Expenses	<u>4,381,295</u>	<u>4,433,887</u>	<u>2,041,396</u>	<u>2,003,976</u>	<u>6,422,691</u>	<u>6,437,863</u>
Increase (Decrease) in Net Position	215,589	(115,607)	1,668	153,118	217,257	37,511
Net Position Beginning of Year - Restated	804,692	N/A	6,836,047	N/A	7,640,739	7,640,739
Net Position End of Year	<u>\$1,020,281</u>	<u>\$804,692</u>	<u>\$6,837,715</u>	<u>\$6,836,047</u>	<u>\$7,857,996</u>	<u>\$7,640,739</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$13,909 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$287,659. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

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	Governmental Activities	Business-type Activities	Total
Total 2018 program expenses under GASB 75	\$4,381,295	\$2,041,396	\$6,422,691
OPEB expense under GASB 75	(256,706)	(30,953)	(287,659)
2018 contractually required contribution	6,652	242	6,894
Adjusted 2018 program expenses	4,131,241	2,010,685	6,141,926
Total 2017 program expenses under GASB 45	4,433,887	2,003,976	6,437,863
Increase (Decrease) in program expenses not related to OPEB	(\$302,646)	\$6,709	(\$295,937)

***Governmental Activities***

For governmental activities, there was an increase in program revenues for 2018. Charges for services increased due to greater cash collections for ambulance runs. Operating grants went up as a result of an increase in State grant monies. The decrease in capital grants was due to less ODOT grant monies being received in 2018. The general revenues increased due to increases in property taxes, local permissive taxes and intergovernmental grant monies. The increase in property taxes was attributable to higher delinquent collections. Unrestricted grant monies increased due to increases in the general fund other local grants.

A review of table 2 also shows that program expenses decreased from 2017 levels. Changes in the net pension liability resulted in a \$128,565 decrease in program expenses. The recording of a net OPEB liability resulted in a \$250,054 increase to program expenses.

Program expenses excluding amounts related to the net pension/OPEB liabilities and related payments subsequent decreased by \$174,081 due to a drop in general government and security of persons and property resulting from a greater amount of costs being capitalized rather than expensed in 2018.

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.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2018	2017	2018	2017
General Government	\$664,307	\$770,999	(\$537,074)	(\$612,420)
Security of Persons and Property	3,024,087	3,022,424	(2,133,966)	(2,356,046)
Public Health and Welfare	18,129	177	(14,338)	(158)
Leisure Time Activities	31,330	33,672	(12,779)	(24,874)
Community Environment	29,407	20,731	(23,258)	127,932
Transportation	567,927	564,385	(92,489)	(175,793)
Basic Utility Services	40,636	21,499	(39,332)	(19,435)
Interest and Fiscal Charges	5,472	0	(5,472)	0
<b>Total</b>	<b><u>\$4,381,295</u></b>	<b><u>\$4,433,887</u></b>	<b><u>(\$2,858,708)</u></b>	<b><u>(\$3,060,794)</u></b>

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. In 2018, 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 police levy and fire levy special revenue funds. The general fund saw an increase in fund balance mainly due to an increase in intergovernmental monies from other local grants. The police levy special revenue fund saw an increase in fund balance due to the issuance of general obligation bonds that remained unspent as of year-end. The fire levy special revenue fund saw an increase in fund balance due to an increase in ambulance charges for services revenue as well as to a drop in security of persons and property expenditures.

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 \$2,041,727 and total operating expenses of \$2,014,358. The City has the power to increase revenue through water and sewer rate increases.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2018, the City amended its general fund budget on various occasions. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City of Cortland operates with a legal level of control at the 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 slight increase in revenues from the final budget to actual, but overall individual revenue projections were very close to estimates. 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 2018 balances of capital assets as compared to 2017.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Construction in Progress	0	0	0	294,012	0	294,012
Buildings and Improvements	334,965	352,863	0	0	334,965	352,863
Furniture, Fixtures and Equipment	250,219	173,581	102,057	51,600	352,276	225,181
Vehicles	470,939	355,643	153,714	171,908	624,653	527,551
Infrastructure	4,491,000	4,668,711	9,733,481	9,483,920	14,224,481	14,152,631
Total Capital Assets	<u>\$5,564,699</u>	<u>\$5,568,374</u>	<u>\$10,034,339</u>	<u>\$10,046,527</u>	<u>\$15,599,038</u>	<u>\$15,614,901</u>

For 2018, the primary additions for governmental activities included the purchase of vehicles, furniture, fixtures, equipment and infrastructure improvements to roads and storm sewers.

Capital asset additions for business-type activities consisted of equipment, vehicles and infrastructure improvements to waterlines.

Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*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	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$251,381	\$0	\$0	\$0	\$251,381	\$0
OPWC Loans	233,921	249,013	2,760,514	2,618,890	2,994,435	2,867,903
OWDA Loans	0	0	887,604	941,892	887,604	941,892
Net Pension Liability	3,677,050	3,989,254	522,742	739,506	4,199,792	4,728,760
Net OPEB Liability	3,298,645	2,798,458	350,190	320,534	3,648,835	3,118,992
Compensated Absences	324,481	340,113	66,792	70,550	391,273	410,663
<b>Total</b>	<b>\$7,785,478</b>	<b>\$7,376,838</b>	<b>\$4,587,842</b>	<b>\$4,691,372</b>	<b>\$12,373,320</b>	<b>\$12,068,210</b>

The City's long-term obligations consist of general obligation bonds, OPWC loans, OWDA loans, net pension liability, net OPEB liability and compensated absences. Business-type OPWC loans and OWDA loans are for infrastructure improvement projects and will be repaid using water and sewer revenues. The governmental general obligation bonds are for the purchase of police and fire vehicles and will be repaid from the police levy fund and the fire improvement fund. The governmental OPWC loan is for storm sewer improvements and will be repaid from the general fund using storm sewer charges. During 2018, the City received additional proceeds on the South Mecca Waterline OPWC loan. 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 City also continues to maintain infrastructure by making various improvements when needed. In 2018, the City made improvements to roads and storm sewers. The City is dedicated to careful financial planning to remain financially strong.

**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 Patti Gibson, Finance Director, City of Cortland, 400 N. High St. Cortland, Ohio 44410. Phone: (330) 637-4263, Fax: (330) 637-4778 or email [financedirector@cityofcortland.org](mailto:financedirector@cityofcortland.org).

**City of Cortland, Ohio**  
*Statement of Net Position*  
*December 31, 2018*

	Governmental Activities	Business-Type Activities*	Total*
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,101,209	\$910,078	\$3,011,287
Accounts Receivable	125,680	529,258	654,938
Intergovernmental Receivable	393,937	0	393,937
Local Permissive Taxes Receivable	86,840	0	86,840
Prepaid Items	15,340	1,850	17,190
Property Taxes Receivable	2,721,167	0	2,721,167
Net Pension Asset	2,557	3,532	6,089
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	5,547,123	9,989,252	15,536,375
<i>Total Assets</i>	<u>11,011,429</u>	<u>11,479,057</u>	<u>22,490,486</u>
<b>Deferred Outflows of Resources</b>			
Pension	576,911	137,896	706,960
OPEB	331,704	29,519	357,716
<i>Total Deferred Outflows of Resources</i>	<u>908,615</u>	<u>167,415</u>	<u>1,064,676</u>
<b>Liabilities</b>			
Accounts Payable	11,369	12,829	24,198
Accrued Wages	23,446	5,322	28,768
Intergovernmental Payable	47,491	39,226	86,717
Accrued Interest Payable	879	13,314	14,193
Long-Term Liabilities:			
Due Within One Year	142,912	259,574	402,486
Due In More Than One Year			
Net Pension Liability (See Note 12)	3,677,050	522,742	4,199,792
Net OPEB Liability (See Note 13)	3,298,645	350,190	3,648,835
Other Amounts	666,871	3,455,336	4,122,207
<i>Total Liabilities</i>	<u>7,868,663</u>	<u>4,658,533</u>	<u>12,527,196</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,613,440	0	2,613,440
Pension	345,510	124,138	461,801
OPEB	72,150	26,086	94,729
<i>Total Deferred Inflows of Resources</i>	<u>3,031,100</u>	<u>150,224</u>	<u>3,169,970</u>
<b>Net Position</b>			
Net Investment in Capital Assets	5,206,478	6,386,221	11,592,699
Restricted for:			
Capital Projects	146,626	0	146,626
Police	326,298	0	326,298
Fire	503,031	0	503,031
Street Construction, Maintenance and Repair	384,747	0	384,747
Other Purposes	236,081	0	236,081
Unrestricted (Deficit)	(5,782,980)	451,494	(5,331,486)
<i>Total Net Position</i>	<u>\$1,020,281</u>	<u>\$6,837,715</u>	<u>\$7,857,996</u>

\* After deferred inflows and deferred outflows related to the change in internal proportionate share of pension-related items have been eliminated.

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2018

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities:</b>				
General Government	\$664,307	\$127,233	\$0	\$0
Security of Persons and Property	3,024,087	483,290	382,581	24,250
Public Health and Welfare	18,129	3,791	0	0
Leisure Time Activities	31,330	6,551	0	12,000
Community Environment	29,407	6,149	0	0
Transportation	567,927	0	385,898	89,540
Basic Utility Services	40,636	1,304	0	0
Interest and Fiscal Charges	5,472	0	0	0
<i>Total Governmental Activities</i>	<u>4,381,295</u>	<u>628,318</u>	<u>768,479</u>	<u>125,790</u>
<b>Business-Type Activities:</b>				
Water	879,201	903,067	0	0
Sewer	1,162,195	1,110,117	0	0
<i>Total Business-Type Activities</i>	<u>2,041,396</u>	<u>2,013,184</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$6,422,691</u></u>	<u><u>\$2,641,502</u></u>	<u><u>\$768,479</u></u>	<u><u>\$125,790</u></u>

**General Revenues**

Property Taxes Levied for:  
    General Purposes  
    Police Levy  
    Fire Levy  
Local Permissive Taxes  
Grants and Entitlements not Restricted  
to Specific Programs  
Interest  
Gain on Sale of Capital Assets  
Other

*Total General Revenues*

Change in Net Position

*Net Position Beginning of Year*  
*(Restated - See Note 16)*

*Net Position End of Year*

See accompanying notes to the basic financial statements



<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$537,074)	\$0	(\$537,074)
(2,133,966)	0	(2,133,966)
(14,338)	0	(14,338)
(12,779)	0	(12,779)
(23,258)	0	(23,258)
(92,489)	0	(92,489)
(39,332)	0	(39,332)
(5,472)	0	(5,472)
<u>(2,858,708)</u>	<u>0</u>	<u>(2,858,708)</u>
0	23,866	23,866
<u>0</u>	<u>(52,078)</u>	<u>(52,078)</u>
0	(28,212)	(28,212)
<u>(2,858,708)</u>	<u>(28,212)</u>	<u>(2,886,920)</u>
535,632	0	535,632
1,076,325	0	1,076,325
951,683	0	951,683
132,106	0	132,106
308,742	0	308,742
14,273	0	14,273
13,884	1,337	15,221
<u>41,652</u>	<u>28,543</u>	<u>70,195</u>
<u>3,074,297</u>	<u>29,880</u>	<u>3,104,177</u>
215,589	1,668	217,257
<u>804,692</u>	<u>6,836,047</u>	<u>7,640,739</u>
<u>\$1,020,281</u>	<u>\$6,837,715</u>	<u>\$7,857,996</u>

**City of Cortland, Ohio**

*Balance Sheet  
Governmental Funds  
December 31, 2018*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$610,455	\$466,348	\$484,572	\$539,834	\$2,101,209
Receivables:					
Property Taxes	566,166	1,143,706	1,011,295	0	2,721,167
Local Permissive Taxes	0	0	0	86,840	86,840
Accounts	14,659	0	111,021	0	125,680
Intergovernmental Receivable	71,733	77,203	63,945	181,056	393,937
Prepaid Items	4,154	6,008	4,974	204	15,340
<i>Total Assets</i>	<u>\$1,267,167</u>	<u>\$1,693,265</u>	<u>\$1,675,807</u>	<u>\$807,934</u>	<u>\$5,444,173</u>
<b>Liabilities</b>					
Accounts Payable	\$5,167	\$465	\$599	\$5,138	\$11,369
Accrued Wages	2,462	9,501	10,553	930	23,446
Intergovernmental Payable	5,984	18,595	21,033	1,879	47,491
<i>Total Liabilities</i>	<u>13,613</u>	<u>28,561</u>	<u>32,185</u>	<u>7,947</u>	<u>82,306</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	543,752	1,098,428	971,260	0	2,613,440
Unavailable Revenue	88,255	119,234	187,113	231,808	626,410
<i>Total Deferred Inflows of Resources</i>	<u>632,007</u>	<u>1,217,662</u>	<u>1,158,373</u>	<u>231,808</u>	<u>3,239,850</u>
<b>Fund Balances</b>					
Nonspendable	4,154	6,008	4,974	204	15,340
Restricted	0	441,034	480,275	554,447	1,475,756
Committed	27,866	0	0	13,528	41,394
Assigned	582,588	0	0	0	582,588
Unassigned	6,939	0	0	0	6,939
<i>Total Fund Balances</i>	<u>621,547</u>	<u>447,042</u>	<u>485,249</u>	<u>568,179</u>	<u>2,122,017</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$1,267,167</u>	<u>\$1,693,265</u>	<u>\$1,675,807</u>	<u>\$807,934</u>	<u>\$5,444,173</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, 2018*

<b>Total Governmental Fund Balances</b>	<b>\$2,122,017</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,564,699
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	107,727
Local Permissive Taxes	77,090
Charges for Services	83,133
Intergovernmental	<u>358,460</u>
Total	626,410
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(879)
The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore, the asset, liability and related deferred inflows/outflows are not reported in governmental funds.	
Net Pension Asset	2,557
Deferred Outflows - Pension	576,911
Deferred Outflows - OPEB	331,704
Net Pension Liability	(3,677,050)
Net OPEB Liability	(3,298,645)
Deferred Inflows - Pension	(345,510)
Deferred Inflows - OPEB	<u>(72,150)</u>
Total	(6,482,183)
Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
General Obligation Bonds Payable	(251,381)
OPWC Loans Payable	(233,921)
Compensated Absences	<u>(324,481)</u>
Total	<u>(809,783)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$1,020,281</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2018*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$542,941	\$1,090,665	\$964,365	\$0	\$2,597,971
Local Permissive Taxes	0	0	0	113,473	113,473
Charges for Services	74,889	0	402,645	0	477,534
Licenses and Permits	77,859	0	0	0	77,859
Fines and Forfeitures	4,923	0	0	578	5,501
Intergovernmental	291,742	232,257	150,975	477,349	1,152,323
Interest	13,240	0	0	1,131	14,371
Contributions and Donations	0	0	2,390	12,000	14,390
Other	29,575	2,286	7,159	2,534	41,554
<i>Total Revenues</i>	<u>1,035,169</u>	<u>1,325,208</u>	<u>1,527,534</u>	<u>607,065</u>	<u>4,494,976</u>
<b>Expenditures</b>					
Current:					
General Government	609,326	0	0	0	609,326
Security of Persons and Property	60,463	1,376,782	1,319,879	165	2,757,289
Public Health Services	18,129	0	0	0	18,129
Leisure Time Activities	31,330	0	0	0	31,330
Community Environment	29,407	0	0	0	29,407
Transportation	0	0	0	369,557	369,557
Basic Utility Services	6,235	0	0	0	6,235
Capital Outlay	0	0	0	233,484	233,484
Debt Service:					
Principal Retirement	15,092	10,994	0	11,700	37,786
Interest and Fiscal Charges	0	1,105	0	3,488	4,593
<i>Total Expenditures</i>	<u>769,982</u>	<u>1,388,881</u>	<u>1,319,879</u>	<u>618,394</u>	<u>4,097,136</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>265,187</u>	<u>(63,673)</u>	<u>207,655</u>	<u>(11,329)</u>	<u>397,840</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	6,858	2,306	8,000	5,369	22,533
General Obligation Bonds Issued	0	138,075	0	136,000	274,075
<i>Total Other Financing Sources (Uses)</i>	<u>6,858</u>	<u>140,381</u>	<u>8,000</u>	<u>141,369</u>	<u>296,608</u>
<i>Net Change in Fund Balance</i>	272,045	76,708	215,655	130,040	694,448
<i>Fund Balances Beginning of Year</i>	<u>349,502</u>	<u>370,334</u>	<u>269,594</u>	<u>438,139</u>	<u>1,427,569</u>
<i>Fund Balances End of Year</i>	<u>\$621,547</u>	<u>\$447,042</u>	<u>\$485,249</u>	<u>\$568,179</u>	<u>\$2,122,017</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, 2018*

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**Net Change in Fund Balances - Total Governmental Funds** \$694,448

*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	493,779	
Current Year Depreciation	(488,805)	
Total		4,974

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. (8,649)

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

Delinquent Property Taxes	(34,331)	
Local Permissive Taxes	18,633	
Charges for Services	67,424	
Intergovernmental	36,298	
Total		88,024

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

Pension	321,714	
OPEB	6,652	
Total		328,366

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

Pension	(413,332)	
OPEB	(256,706)	
Total		(670,038)

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. 37,786

Other financing sources in the governmental funds, such as the issuance of general obligation bonds increase long-term liabilities in the statement of net position. (274,075)

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. 15,632

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (879)

*Change in Net Position of Governmental Activities* \$215,589

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, 2018*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$518,953	\$545,285	\$542,941	(\$2,344)
Charges for Services	65,775	68,789	75,499	6,710
Licenses and Permits	74,448	77,859	77,859	0
Fines and Forfeitures	4,421	4,624	4,624	0
Intergovernmental	274,023	284,025	291,674	7,649
Interest	10,748	11,240	13,240	2,000
Other	34,136	35,701	30,818	(4,883)
<i>Total Revenues</i>	<u>982,504</u>	<u>1,027,523</u>	<u>1,036,655</u>	<u>9,132</u>
<b>Expenditures</b>				
Current:				
General Government	958,318	958,396	633,832	324,564
Security of Persons and Property	124,005	119,072	60,463	58,609
Public Health Services	22,009	22,000	18,129	3,871
Leisure Time Activities	36,514	36,500	31,627	4,873
Community Environment	38,965	38,950	29,564	9,386
Basic Utility Services	42,272	42,189	6,235	35,954
Principal Retirement	15,105	15,100	15,092	8
<i>Total Expenditures</i>	<u>1,237,188</u>	<u>1,232,207</u>	<u>794,942</u>	<u>437,265</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(254,684)	(204,684)	241,713	446,397
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	<u>0</u>	<u>0</u>	<u>6,858</u>	<u>6,858</u>
<i>Net Change in Fund Balance</i>	(254,684)	(204,684)	248,571	453,255
<i>Fund Balance Beginning of Year</i>	<u>332,102</u>	<u>332,102</u>	<u>332,102</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$77,418</u></u>	<u><u>\$127,418</u></u>	<u><u>\$580,673</u></u>	<u><u>\$453,255</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Police Levy Fund*  
*For the Year Ended December 31, 2018*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,095,406	\$1,095,406	\$1,090,665	(\$4,741)
Intergovernmental	183,320	183,320	229,010	45,690
Other	4,592	4,592	2,286	(2,306)
<i>Total Revenues</i>	1,283,318	1,283,318	1,321,961	38,643
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,660,230	1,660,230	1,576,086	84,144
Principal Retirement	14,653	14,653	14,653	0
Interest and Fiscal Charges	1,480	1,480	1,477	3
<i>Total Expenditures</i>	1,676,363	1,676,363	1,592,216	84,147
<i>Excess of Revenues Over (Under) Expenditures</i>	(393,045)	(393,045)	(270,255)	122,790
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	2,306	2,306
General Obligation Bonds Issued	0	0	138,075	138,075
<i>Total Other Financing Sources (Uses)</i>	0	0	140,381	140,381
<i>Net Change in Fund Balance</i>	(393,045)	(393,045)	(129,874)	263,171
<i>Fund Balance Beginning of Year</i>	395,837	395,837	395,837	0
<i>Fund Balance End of Year</i>	\$2,792	\$2,792	\$265,963	\$263,171

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, 2018*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$986,907	\$968,589	\$964,365	(\$4,224)
Charges for Services	380,248	374,000	423,055	49,055
Intergovernmental	144,004	143,739	150,975	7,236
Contributions and Donations	1,017	1,000	2,390	1,390
Other	0	0	7,159	7,159
<i>Total Revenues</i>	1,512,176	1,487,328	1,547,944	60,616
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,766,967	1,741,967	1,327,318	414,649
<i>Excess of Revenues Over (Under) Expenditures</i>	(254,791)	(254,639)	220,626	475,265
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	9,304	9,152	8,000	(1,152)
<i>Net Change in Fund Balance</i>	(245,487)	(245,487)	228,626	474,113
<i>Fund Balance Beginning of Year</i>	245,967	245,967	245,967	0
<i>Fund Balance End of Year</i>	<u>\$480</u>	<u>\$480</u>	<u>\$474,593</u>	<u>\$474,113</u>

See accompanying notes to the basic financial statements



**City of Cortland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Funds*  
*December 31, 2018*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$412,229	\$497,849	\$910,078
Accounts Receivable	232,791	296,467	529,258
Prepaid Items	925	925	1,850
<i>Total Current Assets</i>	<u>645,945</u>	<u>795,241</u>	<u>1,441,186</u>
<i>Noncurrent Assets:</i>			
Net Pension Asset	1,766	1,766	3,532
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	6,093,641	3,895,611	9,989,252
<i>Total Noncurrent Assets</i>	<u>6,139,807</u>	<u>3,898,064</u>	<u>10,037,871</u>
<i>Total Assets</i>	<u>6,785,752</u>	<u>4,693,305</u>	<u>11,479,057</u>
<b>Deferred Outflows of Resources</b>			
Pension	69,736	68,980	138,716
OPEB	14,760	14,759	29,519
<i>Total Deferred Outflows of Resources</i>	<u>84,496</u>	<u>83,739</u>	<u>168,235</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	12,174	655	12,829
Accrued Wages	2,661	2,661	5,322
Intergovernmental Payable	4,846	34,380	39,226
Compensated Absences Payable	9,123	9,122	18,245
Accrued Interest Payable	13,314	0	13,314
OPWC Loans Payable	185,290	0	185,290
OWDA Loans Payable	56,039	0	56,039
<i>Total Current Liabilities</i>	<u>283,447</u>	<u>46,818</u>	<u>330,265</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	25,757	22,790	48,547
OPWC Loans Payable	2,575,224	0	2,575,224
OWDA Loans Payable	831,565	0	831,565
Net Pension Liability	261,371	261,371	522,742
Net OPEB Liability	175,095	175,095	350,190
<i>Total Long-Term Liabilities</i>	<u>3,869,012</u>	<u>459,256</u>	<u>4,328,268</u>
<i>Total Liabilities</i>	<u>4,152,459</u>	<u>506,074</u>	<u>4,658,533</u>
<b>Deferred Inflows of Resources</b>			
Pension	62,470	62,488	124,958
OPEB	13,043	13,043	26,086
<i>Total Deferred Inflows of Resources</i>	<u>75,513</u>	<u>75,531</u>	<u>151,044</u>
<b>Net Position</b>			
Net Investment in Capital Assets	2,489,923	3,896,298	6,386,221
Unrestricted	152,353	299,141	451,494
<i>Total Net Position</i>	<u>\$2,642,276</u>	<u>\$4,195,439</u>	<u>\$6,837,715</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, 2018*

	Water	Sewer	Total
<b>Operating Revenues</b>			
Charges for Services	\$893,415	\$1,105,252	\$1,998,667
Tap-In Fees	9,652	4,865	14,517
Other	25,484	3,059	28,543
<i>Total Operating Revenues</i>	<u>928,551</u>	<u>1,113,176</u>	<u>2,041,727</u>
<b>Operating Expenses</b>			
Personal Services	421,033	419,690	840,723
Materials and Supplies	60,613	33,846	94,459
Contractual Services	172,436	513,349	685,785
Depreciation	198,081	195,310	393,391
<i>Total Operating Expenses</i>	<u>852,163</u>	<u>1,162,195</u>	<u>2,014,358</u>
<i>Operating Income (Loss)</i>	<u>76,388</u>	<u>(49,019)</u>	<u>27,369</u>
<b>Non-Operating Revenues (Expenses)</b>			
Gain on Sale of Capital Assets	669	668	1,337
Interest and Fiscal Charges	(27,038)	0	(27,038)
<i>Total Non-Operating Expenses</i>	<u>(26,369)</u>	<u>668</u>	<u>(25,701)</u>
<i>Change in Net Position</i>	50,019	(48,351)	1,668
<i>Net Position Beginning of Year (Restated - See Note 16)</i>	<u>2,592,257</u>	<u>4,243,790</u>	<u>6,836,047</u>
<i>Net Position End of Year</i>	<u>\$2,642,276</u>	<u>\$4,195,439</u>	<u>\$6,837,715</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, 2018

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$911,727	\$1,129,151	\$2,040,878
Tap In Fees	9,652	4,865	14,517
Other Operating Revenues	22,590	3,059	25,649
Cash Payments to Suppliers for Materials and Supplies	(65,061)	(34,281)	(99,342)
Cash Payments for Employee Services and Benefits	(379,872)	(383,262)	(763,134)
Cash Payments for Contractual Services	(167,127)	(484,631)	(651,758)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>331,909</u>	<u>234,901</u>	<u>566,810</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from Sale of Capital Assets	669	668	1,337
Acquisition of Capital Assets	(351,537)	(29,666)	(381,203)
OPWC Loans Issued	305,743	0	305,743
Principal Paid on OPWC Loans	(164,119)	0	(164,119)
Principal Paid on OWDA Loans	(54,288)	0	(54,288)
Interest Paid on OWDA Loans	(27,852)	0	(27,852)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(291,384)</u>	<u>(28,998)</u>	<u>(320,382)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	40,525	205,903	246,428
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>371,704</u>	<u>291,946</u>	<u>663,650</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$412,229</u></u>	<u><u>\$497,849</u></u>	<u><u>\$910,078</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Income (Loss)	<u>\$76,388</u>	<u>(\$49,019)</u>	<u>\$27,369</u>
Adjustments:			
Depreciation	198,081	195,310	393,391
(Increase) Decrease in Assets and Deferred Outflows:			
Accounts Receivable	15,418	23,899	39,317
Prepaid Items	696	(381)	315
Net Pension Asset	(1,766)	(1,766)	(3,532)
Deferred Outflow - Pension	51,539	47,008	98,547
Deferred Outflow - OPEB	9,121	9,122	18,243
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	165	(870)	(705)
Accrued Wages	1,050	1,026	2,076
Intergovernmental Payable	336	29,875	30,211
Compensated Absences Payable	(1,838)	(1,920)	(3,758)
Net Pension Liability	6,200	6,198	12,398
Net OPEB Liability	9,495	9,495	18,990
Deferred Inflows - Pension	(29,715)	(29,815)	(59,530)
Deferred Inflows - OPEB	(3,261)	(3,261)	(6,522)
<i>Total Adjustments</i>	<u>255,521</u>	<u>283,920</u>	<u>539,441</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$331,909</u></u>	<u><u>\$234,901</u></u>	<u><u>\$566,810</u></u>

See accompanying notes to the basic financial statements

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**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**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, firefighting 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. This is a jointly governed organization and is 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, 2018*

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***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, 2018*

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

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

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

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

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

**Measurement Focus**

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

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Basis of Accounting***

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes and grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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 and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 12 and 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, OPEB and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2019 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, local permissive taxes, charges for services 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 Balances to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 12 and 13)



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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 2018 amounted to \$13,240 which includes \$10,327 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, 2018, 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 acquisition value 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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

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

***Interfund Balances***

Deferred inflows of resources and deferred outflows of resources from the change in internal proportionate share related to pension items are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts between governmental and business-type activities. These residual amounts are eliminated in the total column of the entity wide statement of net position.

***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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

***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 2019's budget.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

***Net Position***

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

Net position restricted for other purposes include resources restricted for law enforcement education, drug enforcement and repair and maintenance of state highways. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services, tap-in fees and other for water and sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

***Estimates***

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***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.

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 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balances

	General	Police Levy	Fire Levy
GAAP Basis	\$272,045	\$76,708	\$215,655
Net Adjustments for Revenue Accruals	243	(3,247)	20,410
Beginning Unrecorded Cash	1,243	0	0
Net Adjustments for Expenditure Accruals	4,822	(2,950)	2,540
Encumbrances	(29,782)	(200,385)	(9,979)
Budget Basis	<u>\$248,571</u>	<u>(\$129,874)</u>	<u>\$228,626</u>

**Note 4 - Fund Balances**

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

Fund Balances	General	Police Levy	Fire Levy	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>					
Prepays	\$4,154	\$6,008	\$4,974	\$204	\$15,340
<b><i>Restricted for</i></b>					
Public Safety	0	441,034	480,275	5,668	926,977
Street Maintenance	0	0	0	271,735	271,735
Community Improvement	0	0	0	130,418	130,418
Capital Improvements	0	0	0	146,626	146,626
<b><i>Total Restricted</i></b>	<u>0</u>	<u>441,034</u>	<u>480,275</u>	<u>554,447</u>	<u>1,475,756</u>
<b><i>Committed to</i></b>					
Contract Services	27,866	0	0	0	27,866
Capital Improvements	0	0	0	13,528	13,528
<b><i>Total Committed</i></b>	<u>27,866</u>	<u>0</u>	<u>0</u>	<u>13,528</u>	<u>41,394</u>
<b><i>Assigned to</i></b>					
2019 Operations	580,672	0	0	0	580,672
Purchases on Order:					
Personal Services	1,916	0	0	0	1,916
<b><i>Total Assigned</i></b>	<u>582,588</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>582,588</u>
<b><i>Unassigned</i></b>	<u>6,939</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,939</u>
<b><i>Total Fund Balances</i></b>	<u>\$621,547</u>	<u>\$447,042</u>	<u>\$485,249</u>	<u>\$568,179</u>	<u>\$2,122,017</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 5 - Deposits**

Monies held by the City are classified by State statute into three categories.

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

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

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

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, and Government National Mortgage 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 (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, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

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

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

***Custodial credit risk*** for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2018, \$861,764 of the City's total bank balance of \$3,131,592 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

## **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 2018 for real and public utility property taxes represents collections of 2017 taxes.

2018 real property taxes were levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.



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

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. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$22.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2018 property tax receipts were based are as follows:

Real Property	\$137,653,000
Public Utility Personal Property	<u>2,525,690</u>
Total	<u><u>\$140,178,690</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, 2018, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2018 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, 2018, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services) and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

A summary of the principal items of intergovernmental receivables follows:

	Amount
Homestead and Rollback	\$165,761
Gasoline Tax	150,756
Local Government	43,574
Auto License	30,300
Attorney General of Ohio	3,247
Trumbull County Central District Court	299
Total	<u><u>\$393,937</u></u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

**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, 2018.

**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 - Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18
Governmental Activities:				
Capital assets not being depreciated				
Land	\$17,576	\$0	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	1,044,672	0	0	1,044,672
Furniture, Fixtures and Equipment	795,801	122,297	(62,491)	855,607
Vehicles	1,387,111	194,225	(214,140)	1,367,196
Infrastructure:				
Roads	4,548,778	161,507	(58,952)	4,651,333
Storm Sewers	2,119,443	15,750	0	2,135,193
Sidewalks	1,054,282	0	0	1,054,282
Curbs	829,353	0	0	829,353
Total capital assets being depreciated	11,779,440	493,779	(335,583)	11,937,636
Accumulated depreciation				
Buildings and Improvements	(691,809)	(17,898)	0	(709,707)
Furniture, Fixtures and Equipment	(622,220)	(45,659)	62,491	(605,388)
Vehicles	(1,031,468)	(70,280)	205,491	(896,257)
Infrastructure:				
Roads	(3,322,848)	(269,319)	58,952	(3,533,215)
Storm Sewers	(310,050)	(42,704)	0	(352,754)
Sidewalks	(129,761)	(26,357)	0	(156,118)
Curbs	(120,486)	(16,588)	0	(137,074)
Total accumulated depreciation	(6,228,642)	(488,805) *	326,934	(6,390,513)
Capital assets being depreciated, net	5,550,798	4,974	(8,649)	5,547,123
Governmental activities capital assets, net	\$5,568,374	\$4,974	(\$8,649)	\$5,564,699

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18
<b>Business type Activities:</b>				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Construction in progress	294,012	305,744	(599,756)	0
Total capital assets not being depreciated	<u>339,099</u>	<u>305,744</u>	<u>(599,756)</u>	<u>45,087</u>
Capital assets being depreciated				
Furniture, Fixtures and Equipment	230,819	63,459	(23,490)	270,788
Vehicles	403,768	12,000	(16,017)	399,751
Infrastructure:				
Water Lines	8,899,770	599,756	(40,903)	9,458,623
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	<u>18,683,932</u>	<u>675,215</u>	<u>(80,410)</u>	<u>19,278,737</u>
Accumulated depreciation				
Furniture, Fixtures and Equipment	(179,219)	(13,002)	23,490	(168,731)
Vehicles	(231,860)	(30,194)	16,017	(246,037)
Infrastructure:				
Water Lines	(3,326,370)	(182,977)	40,903	(3,468,444)
Sewer Lines	(5,239,055)	(167,218)	0	(5,406,273)
Total accumulated depreciation	<u>(8,976,504)</u>	<u>(393,391)</u>	<u>80,410</u>	<u>(9,289,485)</u>
Capital assets being depreciated, net	<u>9,707,428</u>	<u>281,824</u>	<u>0</u>	<u>9,989,252</u>
Business type Activities capital assets, net	<u>\$10,046,527</u>	<u>\$587,568</u>	<u>(\$599,756)</u>	<u>\$10,034,339</u>

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

General Government	\$78,355
Security of Persons and Property	72,847
Transportation	294,899
Basic Utility Services	<u>42,704</u>
Total	<u>\$488,805</u>

**City of Cortland, Ohio**  
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**Note 10 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Public Entities Pool of Ohio	Commercial Automobile	\$2,000,000
	Public Officials Liability	2,000,000
	Commercial Property	7,078,782
	Inland Marine	718,177
	Employee Dishonesty	50,000
	Forgery	10,000
	Theft, Disappearance and Destruction:	10,000
Cincinnati Insurance Company	Bonds - Employees and Officials	25,000

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

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

**Note 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
<b>Business-Type Activities</b>			
<i>Ohio Public Works Commission Loans:</i>			
North High Street - 1998	0%	352,685	2018
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%	325,759	2036
South Mecca Waterline Replacement -2016	0%	599,756	2038
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	1,233,794	2031
<b>Governmental Activities</b>			
<i>General Obligation Bonds:</i>			
Vehicle Acquisition Bonds, Series 2018	3.29%	138,075	2021
Ambulance Acquisition Bonds, Series 2017	2.56%	136,000	2027
<i>Ohio Public Works Commission Loans:</i>			
South Colonial Storm Sewer - 2014	0%	301,835	2034

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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Changes in long-term obligations of the City during 2018 were as follows:

	Outstanding 12/31/2017	Additions	Reductions	Outstanding 12/31/2018	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
North High Street	\$8,818	\$0	\$8,818	\$0	\$0
Southern Waterline	164,450	0	16,445	148,005	16,445
North High Street II Waterline	301,750	0	24,140	277,610	24,140
Willow Park Tank Replacement	636,550	0	43,900	592,650	43,900
North Wellfield Interconnect	191,957	0	13,238	178,719	13,239
Downtown Waterline Replacement	344,685	0	20,890	323,795	20,890
Downtown Waterline Replacement Phase II	367,196	0	20,400	346,796	20,400
Downtown Waterline Replacement Phase II	309,471	0	16,288	293,183	16,288
South Mecca Waterline Replacement	294,013	305,743	0	599,756	29,988
<i>Total OPWC Loans</i>	<u>2,618,890</u>	<u>305,743</u>	<u>164,119</u>	<u>2,760,514</u>	<u>185,290</u>
<b>Ohio Water Development Authority Loan</b>					
Water Storage Tank	941,892	0	54,288	887,604	56,039
<b>Other Long-Term Liabilities</b>					
Net Pension Liability OPERS:					
Water	369,753	0	108,382	261,371	0
Sewer	369,753	0	108,382	261,371	0
<i>Total Net Pension Liability</i>	<u>739,506</u>	<u>0</u>	<u>216,764</u>	<u>522,742</u>	<u>0</u>
Net OPEB Liability OPERS:					
Water	160,267	14,828	0	175,095	0
Sewer	160,267	14,828	0	175,095	0
<i>Total Net OPEB Liability</i>	<u>320,534</u>	<u>29,656</u>	<u>0</u>	<u>350,190</u>	<u>0</u>
Compensated Absences	70,550	13,934	17,692	66,792	18,245
<i>Total Business Type Activities</i>	<u>\$4,691,372</u>	<u>\$349,333</u>	<u>\$452,863</u>	<u>\$4,587,842</u>	<u>\$259,574</u>
<b>Governmental Type Activities</b>					
<b>General Obligation Bonds</b>					
Vehicle Acquisition Bonds, Series 2018	\$0	\$138,075	\$10,994	\$127,081	\$44,888
Ambulance Acquisition Bonds, Series 2017	0	136,000	11,700	124,300	12,100
<i>Total General Obligation Bonds</i>	<u>0</u>	<u>274,075</u>	<u>22,694</u>	<u>251,381</u>	<u>56,988</u>
<b>Ohio Public Works Commission Loans</b>					
South Colonial Storm Sewer	249,013	0	15,092	233,921	15,092
<b>Net Pension Liability</b>					
OPERS	605,052		226,515	378,537	0
OP&F	3,384,202	0	85,689	3,298,513	0
<i>Total Net Pension Liability</i>	<u>3,989,254</u>	<u>0</u>	<u>312,204</u>	<u>3,677,050</u>	<u>0</u>
<b>Net OPEB Liability</b>					
OPERS	262,256	0	8,671	253,585	0
OP&F	2,536,202	508,858	0	3,045,060	0
<i>Total Net OPEB Liability</i>	<u>2,798,458</u>	<u>508,858</u>	<u>8,671</u>	<u>3,298,645</u>	<u>0</u>
<b>Other Long-Term Liabilities</b>					
Compensated Absences	340,113	48,729	64,361	324,481	70,832
<i>Total Governmental Type Activities</i>	<u>\$7,376,838</u>	<u>\$831,662</u>	<u>\$423,022</u>	<u>\$7,785,478</u>	<u>\$142,912</u>

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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. There are no repayment schedules for the net pension liability and net OPEB liability. However, employer pension and OPEB contributions are made from the following funds: the general fund, the street construction, maintenance and repair, police levy and fire levy special revenue funds and the water and sewer enterprise funds. For additional information related to the net pension and net OPEB liabilities see Notes 12 and 13.

The City's overall legal debt margin was \$14,233,460 at December 31, 2018. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018, are as follows:

*Business Type Activities*

Year	OPWC Loans	OWDA Loan	
	Principal	Principal	Interest
2019	\$185,290	\$56,039	\$26,211
2020	185,289	57,847	24,516
2021	185,290	59,713	22,767
2022	185,288	61,639	20,961
2023	185,289	63,627	19,097
2024-2028	910,000	350,276	65,355
2029-2033	674,021	238,463	12,684
2034-2038	250,047	0	0
Total	\$2,760,514	\$887,604	\$191,591

*Governmental Activities*

Year	OPWC Loans	G.O. Bonds	
	Principal	Principal	Interest
2019	\$15,092	\$56,988	\$6,695
2020	15,092	58,888	4,886
2021	15,092	48,705	3,051
2022	15,092	13,300	2,226
2023	15,092	13,800	1,885
2024-2028	75,460	59,700	3,890
2029-2033	75,455	0	0
2033-2034	7,546	0	0
Total	\$233,921	\$251,381	\$22,633

**City of Cortland, Ohio**  
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**Note 12 - Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability (Asset)/Net OPEB Liability***

The net pension liability (asset) and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB 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/OPEB liability (asset) represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) 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 these estimates 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 and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net pension asset* or a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 13 for the required OPEB disclosures.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees 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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

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OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. 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 in the tradition and combined plans 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 and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
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
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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 traditional plan 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. Members retiring under the combined plan receive a cost-of-living adjustment of the defined benefit portion of their pension benefit. 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.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the



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combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

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

	State and Local
<b>2018 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee *	10.0 %
 <b>2018 Actual Contribution Rates</b>	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

\* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

\*\* These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2018, the City's contractually required contribution was \$112,442 for the traditional plan, \$1,938 for the combined plan and \$1,040 for the member-directed plan. Of these amounts, \$17,015 is reported as an intergovernmental payable for the traditional plan, \$292 for the combined plan, and \$157 for the member-directed plan.

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***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://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 OP&F may retire and receive a lifetime monthly pension. OP&F 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.

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 (see OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F 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, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
<b>2018 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2018 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$273,674 for 2017. Of this amount, \$36,376 is reported as an intergovernmental payable.

***Pension Liabilities (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability (asset) for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F’s total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City’s proportion of the net pension liability (asset) 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 of the City’s defined benefit pension plans:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportion of the Net Pension Liability/Asset:				
Current Measurement Date	0.005745%	0.004472%	0.0537440%	
Prior Measurement Date	0.005921%	0.006202%	0.0534300%	
Change in Proportionate Share	-0.000176%	-0.001730%	0.0003140%	
Proportionate Share of the:				
Net Pension Liability	\$901,279	\$0	\$3,298,513	\$4,199,792
Net Pension Asset	0	6,089	0	6,089
Pension Expense	169,456	(4,685)	362,784	527,555

2018 pension expense for the member-directed defined contribution plan was \$1,040.

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At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
<b>Deferred Outflows of Resources</b>				
Differences between expected and actual experience	\$920	\$0	\$50,057	\$50,977
Changes of assumptions	107,709	532	143,734	251,975
Changes in proportion and differences between City contributions and proportionate share of contributions	0	839	15,115	15,954
City contributions subsequent to the measurement date	112,442	1,938	273,674	388,054
<b>Total Deferred Outflows of Resources</b>	<b>\$221,071</b>	<b>\$3,309</b>	<b>\$482,580</b>	<b>\$706,960</b>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	\$17,761	\$1,814	\$5,967	\$25,542
Net difference between projected and actual earnings on pension plan investments	193,493	961	114,103	308,557
Changes in proportion and differences between City contributions and proportionate share of contributions	22,064	0	105,638	127,702
<b>Total Deferred Inflows of Resources</b>	<b>\$233,318</b>	<b>\$2,775</b>	<b>\$225,708</b>	<b>\$461,801</b>

\$388,054 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 or increase to the net pension asset in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Year Ending December 31:				
2019	\$67,783	(\$204)	\$56,599	\$124,178
2020	(27,758)	(230)	26,601	(1,387)
2021	(85,204)	(444)	(91,583)	(177,231)
2022	(79,510)	(423)	(56,352)	(136,285)
2023	0	(85)	38,397	38,312
Thereafter	0	(18)	9,536	9,518
<b>Total</b>	<b>(\$124,689)</b>	<b>(\$1,404)</b>	<b>(\$16,802)</b>	<b>(\$142,895)</b>

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**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 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 was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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.

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Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

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 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
<b>Total</b>	<b>100.00 %</b>	<b>5.66 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. 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 contractually required rates, as actuarially determined. 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 (Asset) to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
<b>City's proportionate share of the net pension liability (asset)</b>			
OPERS Traditional Plan	\$1,600,442	\$901,279	\$318,388
OPERS Combined Plan	(3,309)	(6,089)	(8,005)

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**Actuarial Assumptions – OP&F**

OP&F's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F'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. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

	January 1, 2017	January 1, 2016
Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

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Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

For the January 1, 2016 valuation, rates of death were 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 for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

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 expected. 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 OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

\* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F'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.



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**Discount Rate** For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 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 8.00 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 8.00 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 (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$4,572,602	\$3,298,513	\$2,259,375

**Note 13 - Defined Benefit OPEB Plans**

See Note 12 for a description of the net OPEB liability.

**Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS’ CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

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Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$416 for 2018. Of this amount, \$63 is reported as an intergovernmental payable.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

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OP&F 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 OP&F website at [www.op-f.org](http://www.op-f.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 OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F 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 contractually required contribution to OP&F was \$6,478 for 2018. Of this amount, \$859 is reported as an intergovernmental payable.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

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	<u>OPERS</u>	<u>OP&amp;F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.005560%	0.0537440%	
Prior Measurement Date	<u>0.005770%</u>	<u>0.0534300%</u>	
Change in Proportionate Share	<u>-0.0002100%</u>	<u>0.0003140%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$603,775	\$3,045,060	\$3,648,835
OPEB Expense	\$44,041	\$243,618	\$287,659

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$470	\$0	\$470
Changes of assumptions	43,961	297,133	341,094
Changes in proportion and differences between City contributions and proportionate share of contributions	0	9,258	9,258
City contributions subsequent to the measurement date	<u>416</u>	<u>6,478</u>	<u>6,894</u>
Total Deferred Outflows of Resources	<u>\$44,847</u>	<u>\$312,869</u>	<u>\$357,716</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$15,358	\$15,358
Net difference between projected and actual earnings on OPEB plan investments	44,977	20,044	65,021
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>14,350</u>	<u>0</u>	<u>14,350</u>
Total Deferred Inflows of Resources	<u>\$59,327</u>	<u>\$35,402</u>	<u>\$94,729</u>

\$6,894 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Year Ending December 31:	OPERS	OP&F	Total
2019	\$3,138	\$37,538	\$40,676
2020	3,138	37,538	40,676
2021	(9,926)	37,538	27,612
2022	(11,246)	37,538	26,292
2023	0	42,549	42,549
Thereafter	0	78,288	78,288
Total	(\$14,896)	\$270,989	\$256,093

**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 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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

**Discount Rate** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

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

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$802,141	\$603,775	\$443,299

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$577,684	\$603,775	\$630,726

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.



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The long-term expected rate of return on OPEB 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 expected. 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 OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
<b>Total</b>	<b>120.00 %</b>	

Note: Assumptions are geometric.

\* levered 2x

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 12.

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

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***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***  
Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$3,806,361	\$3,045,060	\$2,459,266

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate***  
Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
Year					
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$2,365,457	\$3,045,060	\$3,960,934

***Changes between Measurement Date and Report Date***

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's NOL is not known.

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**Note 14 - Compensated Absences**

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

**Note 15 - Jointly Governed Organization**

***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 2018, the City contributed \$7,891 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

**Note 16 – Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For 2018, the City also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

GASB 75 established standards for measuring and recognizing Postemployment benefit 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, 2017:

	Governmental Activities	Business - Type Activities
Net Position December 31, 2017	\$3,593,729	\$7,152,093
Adjustments:		
Net OPEB Liability	(2,798,458)	(320,534)
Deferred Outflow - Payments Subsequent to Measurement Date	9,421	4,488
Restated Net Position December 31, 2017	\$804,692	\$6,836,047

	Water	Sewer	Total Enterprise
Net Position December 31, 2017	\$2,750,280	\$4,401,813	\$7,152,093
Adjustments:			
Net OPEB Liability	(160,267)	(160,267)	(320,534)
Deferred Outflow - Payments Subsequent to Measurement Date	2,244	2,244	4,488
Restated Net Position December 31, 2017	\$2,592,257	\$4,243,790	\$6,836,047

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.

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## Required Supplementary Information

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**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 Five Years (1)*

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.005745%	0.005921%	0.005954%	0.006308%	0.006308%
City's Proportionate Share of the Net Pension Liability	\$901,279	\$1,344,558	\$1,031,310	\$760,815	\$743,631
City's Covered Payroll	\$759,254	\$765,400	\$741,031	\$773,317	\$652,104
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.71%	175.67%	139.17%	98.38%	114.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**City of Cortland, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Asset*  
*Ohio Public Employees Retirement System - Combined Plan*  
*2018 (1)*

	2018
City's Proportion of the Net Pension Asset	0.004472%
City's Proportionate Share of the Net Pension Asset	\$6,089
City's Covered Payroll	\$18,315
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	-33.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	137.28%

(1) Amounts for the combined plan are not presented prior to 2018 as the City's participation in this plan was considered immaterial in previous years.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

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

	2018	2017
City's Proportion of the Net OPEB Liability	0.005560%	0.005770%
City's Proportionate Share of the Net OPEB Liability	\$603,775	\$582,790
City's Covered Payroll	\$787,169	\$797,942
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.70%	73.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information



**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 Five Years (1)*

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0537440%	0.0534300%	0.0549470%	0.0569253%	0.0569253%
City's Proportionate Share of the Net Pension Liability	\$3,298,513	\$3,384,202	\$3,534,779	\$2,948,968	\$2,772,441
City's Covered Payroll	\$1,149,749	\$1,186,883	\$1,104,393	\$1,117,497	\$1,002,768
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	286.89%	285.13%	320.07%	263.89%	276.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

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

	2018	2017
City's Proportion of the Net OPEB Liability	0.0537440%	0.0534300%
City's Proportionate Share of the Net OPEB Liability	\$3,045,060	\$2,536,202
City's Covered Payroll	\$1,149,749	\$1,186,883
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	264.85%	213.69%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Although this schedule is intended to reflect information for ten years, information prior 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

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**City of Cortland, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Public Employees Retirement System*  
*Last Six Years (1)*

	2018	2017	2016
<b>Net Pension Liability - Traditional Plan</b>			
Contractually Required Contribution	\$112,442	\$98,703	\$91,848
Contributions in Relation to the Contractually Required Contribution	<u>(112,442)</u>	<u>(98,703)</u>	<u>(91,848)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$803,157	\$759,254	\$765,400
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net Pension Liability - Combined Plan</b>			
Contractually Required Contribution	\$1,938	\$2,381	\$2,897
Contributions in Relation to the Contractually Required Contribution	<u>(1,938)</u>	<u>(2,381)</u>	<u>(2,897)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$13,843	\$18,315	\$24,142
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net OPEB Liability - OPEB Plan (2)</b>			
Contractually Required Contribution	\$416	\$8,160	\$16,127
Contributions in Relation to the Contractually Required Contribution	<u>(416)</u>	<u>(8,160)</u>	<u>(16,127)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (3)	\$827,400	\$787,169	\$797,942
OPEB Contributions as a Percentage of Covered Payroll	<u>0.05%</u>	<u>1.04%</u>	<u>2.02%</u>

(1) Information prior to 2013 is not available for the Traditional and Combined plans.

(2) Information prior to 2016 is not available for the OPEB plan.

(3) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>
\$88,924	\$92,798	\$84,773
<u>(88,924)</u>	<u>(92,798)</u>	<u>(84,773)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$741,033	\$773,317	\$652,100
<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>
\$1,657	\$1,902	\$1,738
<u>(1,657)</u>	<u>(1,902)</u>	<u>(1,738)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$13,808	\$15,850	\$13,369
<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>

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

	2018	2017	2016	2015
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$273,674	\$244,327	\$253,394	\$235,730
Contributions in Relation to the Contractually Required Contribution	<u>(273,674)</u>	<u>(244,327)</u>	<u>(253,394)</u>	<u>(235,730)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$1,295,614	\$1,149,749	\$1,186,883	\$1,104,393
Pension Contributions as a Percentage of Covered Payroll	<u>21.12%</u>	<u>21.25%</u>	<u>21.35%</u>	<u>21.34%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$6,478	\$5,749	\$5,934	\$5,522
Contributions in Relation to the Contractually Required Contribution	<u>(6,478)</u>	<u>(5,749)</u>	<u>(5,934)</u>	<u>(5,522)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>
Total Contributions as a Percentage of Covered Payroll	<u>21.62%</u>	<u>21.75%</u>	<u>21.85%</u>	<u>21.84%</u>

(1) The City's Covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$238,229	\$181,676	\$153,278	\$161,665	\$151,513	\$149,066
<u>(238,229)</u>	<u>(181,676)</u>	<u>(153,278)</u>	<u>(161,665)</u>	<u>(151,513)</u>	<u>(149,066)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,117,497	\$1,002,768	\$1,012,026	\$1,076,167	\$1,007,856	\$991,580
<u>21.32%</u>	<u>18.12%</u>	<u>15.15%</u>	<u>15.02%</u>	<u>15.03%</u>	<u>15.03%</u>
\$5,587	\$36,267	\$68,312	\$72,641	\$68,030	\$66,931
<u>(5,587)</u>	<u>(36,267)</u>	<u>(68,312)</u>	<u>(72,641)</u>	<u>(68,030)</u>	<u>(66,931)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>
<u>21.82%</u>	<u>21.74%</u>	<u>21.90%</u>	<u>21.77%</u>	<u>21.78%</u>	<u>21.78%</u>

**City of Cortland, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

**Changes in Assumptions – OPERS Pension**

Amounts reported beginning in 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	2017	2016 and prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates 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.



**City of Cortland, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

**Changes in Assumptions – OP&F Pension**

Amounts reported for 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

	2018	2017 and Prior
Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Amounts reported for 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Amounts reported for 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

Amounts reported for 2017 and prior use valuation, rates of death were 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.

**City of Cortland, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

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**Changes in Assumptions – OPERS OPEB**

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

**Changes in Assumptions – OP&F OPEB**

For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2017*  
*Unaudited*

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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, 2017. 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 increased during 2017 due to an increase in cash and cash equivalents due largely to higher charges for services revenue.
- During 2017, the City received new OPWC monies for the South Mecca Waterline Replacement project.
- In 2017, capital asset additions consisted of the purchase of furniture, fixtures, equipment and vehicles, infrastructure improvements to roads, storm sewers and sidewalks and construction in progress work on waterlines.

***Using this Annual Financial Report***

This discussion and analysis is intended to serve as an introduction to the City of Cortland's basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The Statement of Net 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 2017?" 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.

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.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2017*  
*Unaudited*

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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 and fire levy special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2017*  
*Unaudited*

**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 2017 compared to 2016.

**Table 1**  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current and Other Assets	\$4,640,492	\$4,337,480	\$1,234,390	\$722,665	\$5,874,882	\$5,060,145
Capital Assets, Net	5,568,374	5,658,137	10,046,527	10,105,996	15,614,901	15,764,133
<i>Total Assets</i>	<u>10,208,866</u>	<u>9,995,617</u>	<u>11,280,917</u>	<u>10,828,661</u>	<u>21,489,783</u>	<u>20,824,278</u>
<b>Deferred Outflows of Resources</b>						
Pension	805,697	1,006,467	287,999	227,065	1,093,696	1,233,532
<b>Liabilities</b>						
Current Liabilities	72,742	50,617	39,923	11,949	112,665	62,566
Long-Term Liabilities						
Due Within One Year	79,453	97,017	236,100	246,501	315,553	343,518
Due in More Than One Year						
Net Pension Liability	3,989,254	3,998,868	739,506	567,221	4,728,760	4,566,089
Other Amounts	509,673	451,143	3,395,232	3,219,902	3,904,905	3,671,045
<i>Total Liabilities</i>	<u>\$4,651,122</u>	<u>\$4,597,645</u>	<u>\$4,410,761</u>	<u>\$4,045,573</u>	<u>\$9,061,883</u>	<u>\$8,643,218</u>

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2017*  
*Unaudited*

**Table 1**  
*Net Position (continued)*

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Deferred Inflows of Resources</b>						
Property Taxes	\$2,601,795	\$2,556,213	\$0	\$0	\$2,601,795	\$2,556,213
Pension	167,917	138,890	6,062	11,178	173,979	150,068
<i>Total Deferred Inflows of Resources</i>	<u>2,769,712</u>	<u>2,695,103</u>	<u>6,062</u>	<u>11,178</u>	<u>2,775,774</u>	<u>2,706,281</u>
<b>Net Position</b>						
Net Investment in						
Capital Assets	5,319,361	5,401,578	6,485,745	6,710,730	11,805,106	12,112,308
Restricted for:						
Capital Projects	140,808	137,333	0	0	140,808	137,333
Police	371,762	364,733	0	0	371,762	364,733
Fire	238,601	256,822	0	0	238,601	256,822
Street Construction, Maintenance and Repair	297,872	273,485	0	0	297,872	273,485
Other Purposes	171,292	117,313	0	0	171,292	117,313
Unrestricted (Deficit)	(2,945,967)	(2,841,928)	666,348	288,245	(2,279,619)	(2,553,683)
<i>Total Net Position</i>	<u>\$3,593,729</u>	<u>\$3,709,336</u>	<u>\$7,152,093</u>	<u>\$6,998,975</u>	<u>\$10,745,822</u>	<u>\$10,708,311</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." 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.

GASB 68 requires the net pension liability to equal 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.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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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 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.

Total assets for governmental activities increased due to an increase in cash and cash equivalents that was partially offset by a decrease in capital assets due to annual depreciation outpacing current year additions. Current liabilities increased due to increases in accounts and intergovernmental payables as well as accrued wages. The increase in long-term liabilities was due to an increase in the compensated absences liability partially offset by a decrease in long-term debt obligations resulting from annual pay downs.

Total assets for business-type activities increased due to increases in cash and cash equivalents and accounts receivable attributable to higher charges for services on utility accounts. Net capital assets decreased resulting from annual depreciation exceeding current year additions. Total liabilities for business-type activities increased due to an increase in the net pension liability and OPWC loans payable.

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 2017 compared to 2016.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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**Table 2**  
*Change in Net Position*

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$549,199	\$448,281	\$2,111,218	\$1,584,062	\$2,660,417	\$2,032,343
Operating Grants and Contributions	605,648	698,080	0	0	605,648	698,080
Capital Grants	218,246	66,451	0	0	218,246	66,451
<b>Total Program Revenues</b>	<b>1,373,093</b>	<b>1,212,812</b>	<b>2,111,218</b>	<b>1,584,062</b>	<b>3,484,311</b>	<b>2,796,874</b>
<b>General Revenues</b>						
Property Taxes	2,547,567	2,519,545	0	0	2,547,567	2,519,545
Local Permissive Taxes	120,151	40,506	0	0	120,151	40,506
Grants and Entitlements	133,989	136,672	0	0	133,989	136,672
Investment Earnings	1,206	5,749	0	0	1,206	5,749
Gain on Sale of Capital Assets	4,772	0	4,250	0	9,022	0
Other	137,502	53,603	41,626	34,767	179,128	88,370
<b>Total General Revenues</b>	<b>2,945,187</b>	<b>2,756,075</b>	<b>45,876</b>	<b>34,767</b>	<b>2,991,063</b>	<b>2,790,842</b>
<b>Total Revenues</b>	<b>4,318,280</b>	<b>3,968,887</b>	<b>2,157,094</b>	<b>1,618,829</b>	<b>6,475,374</b>	<b>5,587,716</b>
<b>Program Expenses</b>						
General Government	770,999	600,043	0	0	770,999	600,043
Security of Persons and Property	3,022,424	2,928,349	0	0	3,022,424	2,928,349
Public Health and Welfare	177	0	0	0	177	0
Leisure Time Activities	33,672	15,209	0	0	33,672	15,209
Community Environment	20,731	23,494	0	0	20,731	23,494
Transportation	564,385	573,500	0	0	564,385	573,500
Basic Utility Services	21,499	12,612	0	0	21,499	12,612
Water	0	0	799,933	829,937	799,933	829,937
Sewer	0	0	1,204,043	1,083,867	1,204,043	1,083,867
<b>Total Program Expenses</b>	<b>4,433,887</b>	<b>4,153,207</b>	<b>2,003,976</b>	<b>1,913,804</b>	<b>6,437,863</b>	<b>6,067,011</b>
Increase (Decrease) in Net Position	(115,607)	(184,320)	153,118	(294,975)	37,511	(479,295)
Net Position Beginning of Year	3,709,336	3,893,656	6,998,975	7,293,950	10,708,311	11,187,606
Net Position End of Year	<b>\$3,593,729</b>	<b>\$3,709,336</b>	<b>\$7,152,093</b>	<b>\$6,998,975</b>	<b>\$10,745,822</b>	<b>\$10,708,311</b>

***Governmental Activities***

For governmental activities, there was an increase in program revenues for 2017. Charges for services increased due to greater cash collections for ambulance and zoning permits. Operating grants decreased as a result of a drop in State grant monies. The increase in capital grants was due to additional OPWC grant monies being received for projects. The general revenues increased partly due to an increase in property tax revenues. Property tax collections are the largest source of revenue for governmental activities. The City collects 2.5 mills of inside millage and 16.66 mills of outside millage. The outside millage is generated from a five year 1.9 mill general fund operating replacement levy passed on November 8, 2016, 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 2016 levels. The increase in governmental expenses can be attributed to increases in general government, security of persons and property and leisure time activities. General government increased due to a greater amount of costs being expensed instead of capitalized in 2017. Security of persons and property increased due to an increase in pension expenses. Leisure time activities increased due to an increase in professional services expenses.



**City of Cortland, Ohio**  
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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.

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2017	2016	2017	2016
General Government	\$770,999	\$600,043	(\$612,420)	(\$475,616)
Security of Persons and Property	3,022,424	2,928,349	(2,356,046)	(2,239,976)
Public Health and Welfare	177	0	(158)	349
Leisure Time Activities	33,672	15,209	(24,874)	(11,752)
Community Environment	20,731	23,494	127,932	(18,154)
Transportation	564,385	573,500	(175,793)	(144,030)
Basic Utility Services	21,499	12,612	(19,435)	(10,710)
<b>Total</b>	<b><u>\$4,433,887</u></b>	<b><u>\$4,153,207</u></b>	<b><u>(\$3,060,794)</u></b>	<b><u>(\$2,899,889)</u></b>

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. In 2017, 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 police levy and fire levy special revenue funds. The general fund saw an increase in fund balance mainly due to an increase in property taxes and licenses and permits revenues. The police levy special revenue fund saw an increase in fund balance due to increased property tax and intergovernmental revenues as the City continues to seek out additional sources of revenues. Despite an increase in revenues, the fire levy special revenue fund saw a decrease in fund balance as expenditures continued to exceed revenues.

Proprietary funds are accounted for on an accrual basis.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
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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 \$2,152,844 and total operating expenses of \$1,975,322. 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 2017, the City amended its general fund budget on various occasions. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City of Cortland operates with a legal level of control at the 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. 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 2017 balances of capital assets as compared to 2016.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Construction in Progress	0	0	294,012	0	294,012	0
Buildings and Improvements	352,863	370,761	0	0	352,863	370,761
Furniture, Fixtures and Equipment	173,581	200,084	51,600	62,000	225,181	262,084
Vehicles	355,643	349,031	171,908	174,929	527,551	523,960
Infrastructure	4,668,711	4,720,685	9,483,920	9,823,980	14,152,631	14,544,665
Total Capital Assets	<u>\$5,568,374</u>	<u>\$5,658,137</u>	<u>\$10,046,527</u>	<u>\$10,105,996</u>	<u>\$15,614,901</u>	<u>\$15,764,133</u>

For 2017, the primary additions for governmental activities included the purchase of vehicles, furniture, fixtures, equipment and infrastructure improvements to roads, storm sewers and sidewalks.

Capital asset additions for business-type activities consisted of vehicles and construction in progress on waterlines.

Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2017*  
*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	
	2017	2016	2017	2016	2017	2016
OPWC Loans	\$249,013	\$256,559	\$2,618,890	\$2,426,869	\$2,867,903	\$2,683,428
OWDA Loans	0	0	941,892	968,397	941,892	968,397
Net Pension Liability	3,989,254	3,998,868	739,506	567,221	4,728,760	4,566,089
Compensated Absences	340,113	291,601	70,550	71,137	410,663	362,738
<b>Total</b>	<b>\$4,578,380</b>	<b>\$4,547,028</b>	<b>\$4,370,838</b>	<b>\$4,033,624</b>	<b>\$8,949,218</b>	<b>\$8,580,652</b>

The City's long-term obligations consist only of OPWC loans, OWDA loans, net pension liability and compensated absences. 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 2017, the City received additional proceeds on one OPWC loan, for South Mecca Street. Additional information concerning debt issuances can be found in Note 10 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 Patti Gibson, Finance Director, City of Cortland, 400 N. High St. Cortland, Ohio 44410. Phone: (330) 637-4263, Fax: (330) 637-4778 or email [financedirector@cityofcortland.org](mailto:financedirector@cityofcortland.org).

**Basic Financial Statements**

**City of Cortland, Ohio**

*Statement of Net Position*

December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,387,916	\$663,650	\$2,051,566
Accounts Receivable	79,276	568,575	647,851
Intergovernmental Receivable	348,910	0	348,910
Local Permissive Taxes Receivable	67,183	0	67,183
Prepaid Items	13,354	2,165	15,519
Property Taxes Receivable	2,743,853	0	2,743,853
Nondepreciable Capital Assets	17,576	339,099	356,675
Depreciable Capital Assets, Net	5,550,798	9,707,428	15,258,226
<i>Total Assets</i>	<u>10,208,866</u>	<u>11,280,917</u>	<u>21,489,783</u>
<b>Deferred Outflows of Resources</b>			
Pension	805,697	287,999	1,093,696
<b>Liabilities</b>			
Accounts Payable	6,686	13,534	20,220
Accrued Wages	17,526	3,246	20,772
Intergovernmental Payable	48,530	9,015	57,545
Accrued Interest Payable	0	14,128	14,128
Long-Term Liabilities:			
Due Within One Year	79,453	236,100	315,553
Due In More Than One Year			
Net Pension Liability (See Note 13)	3,989,254	739,506	4,728,760
Other Amounts	509,673	3,395,232	3,904,905
<i>Total Liabilities</i>	<u>4,651,122</u>	<u>4,410,761</u>	<u>9,061,883</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,601,795	0	2,601,795
Pension	167,917	6,062	173,979
<i>Total Deferred Inflows of Resources</i>	<u>2,769,712</u>	<u>6,062</u>	<u>2,775,774</u>
<b>Net Position</b>			
Net Investment in Capital Assets	5,319,361	6,485,745	11,805,106
Restricted for:			
Capital Projects	140,808	0	140,808
Police	371,762	0	371,762
Fire	238,601	0	238,601
Street Construction, Maintenance and Repair	297,872	0	297,872
Other Purposes	171,292	0	171,292
Unrestricted (Deficit)	(2,945,967)	666,348	(2,279,619)
<i>Total Net Position</i>	<u>\$3,593,729</u>	<u>\$7,152,093</u>	<u>\$10,745,822</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities:</b>				
General Government	\$770,999	\$158,579	\$0	\$0
Security of Persons and Property	3,022,424	374,323	292,055	0
Public Health and Welfare	177	19	0	0
Leisure Time Activities	33,672	8,798	0	0
Community Environment	20,731	5,416	0	143,247
Transportation	564,385	0	313,593	74,999
Basic Utility Services	21,499	2,064	0	0
<i>Total Governmental Activities</i>	<u>4,433,887</u>	<u>549,199</u>	<u>605,648</u>	<u>218,246</u>
<b>Business-Type Activities:</b>				
Water	799,933	920,871	0	0
Sewer	1,204,043	1,190,347	0	0
<i>Total Business-Type Activities</i>	<u>2,003,976</u>	<u>2,111,218</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$6,437,863</u></u>	<u><u>\$2,660,417</u></u>	<u><u>\$605,648</u></u>	<u><u>\$218,246</u></u>

**General Revenues**

Property Taxes Levied for:  
    General Purposes  
    Police Levy  
    Fire Levy  
Local Permissive Taxes  
Grants and Entitlements not Restricted  
to Specific Programs  
Interest  
Gain on Sale of Capital Assets  
Other

*Total General Revenues*

Change in Net Position

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$612,420)	\$0	(\$612,420)
(2,356,046)	0	(2,356,046)
(158)	0	(158)
(24,874)	0	(24,874)
127,932	0	127,932
(175,793)	0	(175,793)
(19,435)	0	(19,435)
<u>(3,060,794)</u>	<u>0</u>	<u>(3,060,794)</u>
0	120,938	120,938
<u>0</u>	<u>(13,696)</u>	<u>(13,696)</u>
0	107,242	107,242
<u>(3,060,794)</u>	<u>107,242</u>	<u>(2,953,552)</u>
524,650	0	524,650
1,073,581	0	1,073,581
949,336	0	949,336
120,151	0	120,151
133,989	0	133,989
1,206	0	1,206
4,772	4,250	9,022
<u>137,502</u>	<u>41,626</u>	<u>179,128</u>
<u>2,945,187</u>	<u>45,876</u>	<u>2,991,063</u>
(115,607)	153,118	37,511
<u>3,709,336</u>	<u>6,998,975</u>	<u>10,708,311</u>
<u>\$3,593,729</u>	<u>\$7,152,093</u>	<u>\$10,745,822</u>

**City of Cortland, Ohio**

*Balance Sheet  
Governmental Funds  
December 31, 2017*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$333,345	\$395,837	\$245,967	\$412,767	\$1,387,916
Receivables:					
Property Taxes	574,103	1,151,521	1,018,229	0	2,743,853
Local Permissive Taxes	0	0	0	67,183	67,183
Accounts	15,269	0	64,007	0	79,276
Intergovernmental Receivable	55,988	75,574	65,368	151,980	348,910
Prepaid Items	5,548	4,128	3,134	544	13,354
<i>Total Assets</i>	<u>\$984,253</u>	<u>\$1,627,060</u>	<u>\$1,396,705</u>	<u>\$632,474</u>	<u>\$4,640,492</u>
<b>Liabilities</b>					
Accounts Payable	\$2,891	\$1,857	\$1,126	\$812	\$6,686
Accrued Wages	1,560	7,426	7,570	970	17,526
Intergovernmental Payable	7,356	20,348	19,109	1,717	48,530
<i>Total Liabilities</i>	<u>11,807</u>	<u>29,631</u>	<u>27,805</u>	<u>3,499</u>	<u>72,742</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	544,380	1,091,903	965,512	0	2,601,795
Unavailable Revenue	78,564	135,192	133,794	190,836	538,386
<i>Total Deferred Inflows of Resources</i>	<u>622,944</u>	<u>1,227,095</u>	<u>1,099,306</u>	<u>190,836</u>	<u>3,140,181</u>
<b>Fund Balances</b>					
Nonspendable	5,548	4,128	3,134	544	13,354
Restricted	0	366,206	266,460	436,067	1,068,733
Committed	0	0	0	1,528	1,528
Assigned	254,684	0	0	0	254,684
Unassigned	89,270	0	0	0	89,270
<i>Total Fund Balances</i>	<u>349,502</u>	<u>370,334</u>	<u>269,594</u>	<u>438,139</u>	<u>1,427,569</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$984,253</u>	<u>\$1,627,060</u>	<u>\$1,396,705</u>	<u>\$632,474</u>	<u>\$4,640,492</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, 2017*

<b>Total Governmental Fund Balances</b>	<b>\$1,427,569</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,568,374
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	142,058
Local Permissive Taxes	58,457
Charges for Services	15,709
Intergovernmental	322,162
Total	538,386
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	805,697
Deferred Inflows - Pension	(167,917)
Net Pension Liability	(3,989,254)
Total	(3,351,474)
Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
OPWC Loans Payable	(249,013)
Compensated Absences	(340,113)
Total	(589,126)
<i>Net Position of Governmental Activities</i>	<b>\$3,593,729</b>

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, 2017*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$527,865	\$1,089,979	\$963,807	\$0	\$2,581,651
Local Permissive Taxes	0	0	0	77,369	77,369
Charges for Services	70,109	0	345,325	0	415,434
Licenses and Permits	110,703	0	0	0	110,703
Fines and Forfeitures	7,098	0	0	255	7,353
Intergovernmental	144,601	151,148	133,487	553,961	983,197
Interest	1,206	0	0	0	1,206
Contributions and Donations	0	0	175	0	175
Other	33,701	56,194	25,053	22,554	137,502
<i>Total Revenues</i>	<u>895,283</u>	<u>1,297,321</u>	<u>1,467,847</u>	<u>654,139</u>	<u>4,314,590</u>
<b>Expenditures</b>					
Current:					
General Government	608,603	0	0	0	608,603
Security of Persons and Property	49,959	1,243,437	1,471,818	23,775	2,788,989
Public Health Services	0	0	0	177	177
Leisure Time Activities	33,672	0	0	0	33,672
Community Environment	20,731	0	0	143,247	163,978
Transportation	0	0	0	277,425	277,425
Basic Utility Services	7,899	0	0	0	7,899
Capital Outlay	7,561	0	0	192,353	199,914
Debt Service:					
Principal Retirement	7,546	0	0	0	7,546
<i>Total Expenditures</i>	<u>735,971</u>	<u>1,243,437</u>	<u>1,471,818</u>	<u>636,977</u>	<u>4,088,203</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	159,312	53,884	(3,971)	17,162	226,387
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	4,375	3,500	0	2,125	10,000
<i>Net Change in Fund Balance</i>	163,687	57,384	(3,971)	19,287	236,387
<i>Fund Balances</i>					
<i>Beginning of Year</i>	<u>185,815</u>	<u>312,950</u>	<u>273,565</u>	<u>418,852</u>	<u>1,191,182</u>
<i>Fund Balances End of Year</i>	<u>\$349,502</u>	<u>\$370,334</u>	<u>\$269,594</u>	<u>\$438,139</u>	<u>\$1,427,569</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, 2017*

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**Net Change in Fund Balances - Total Governmental Funds** \$236,387

*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 depreciation exceeded capital outlay in the current period.

Capital Asset Additions	501,532	
Current Year Depreciation	(586,067)	
Total		(84,535)

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. (5,228)

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

Delinquent Property Taxes	(34,084)	
Local Permissive Taxes	42,782	
Charges for Services	15,709	
Intergovernmental	(25,489)	
Total		(1,082)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 288,744

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (508,927)

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

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. (48,512)

*Change in Net Position of Governmental Activities* (\$115,607)

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, 2017*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$471,535	\$471,535	\$527,865	\$56,330
Charges for Services	72,046	72,046	69,097	(2,949)
Licenses and Permits	111,000	111,000	110,703	(297)
Fines and Forfeitures	7,500	7,500	7,656	156
Intergovernmental	168,527	168,527	146,262	(22,265)
Interest	5,000	5,000	1,206	(3,794)
Other	80,899	77,899	34,507	(43,392)
<i>Total Revenues</i>	<u>916,507</u>	<u>913,507</u>	<u>897,296</u>	<u>(16,211)</u>
<b>Expenditures</b>				
Current:				
General Government	860,487	828,171	599,717	228,454
Security of Persons and Property	53,000	53,000	49,959	3,041
Leisure Time Activities	26,000	45,725	32,744	12,981
Community Environment	35,454	35,454	21,540	13,914
Basic Utility Services	28,650	28,650	7,899	20,751
Capital Outlay	62,767	52,159	7,561	44,598
Debt Service:				
Principal Retirement	7,546	7,546	7,546	0
<i>Total Expenditures</i>	<u>1,073,904</u>	<u>1,050,705</u>	<u>726,966</u>	<u>323,739</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(157,397)	(137,198)	170,330	307,528
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	4,375	4,375
<i>Net Change in Fund Balance</i>	(157,397)	(137,198)	174,705	311,903
<i>Fund Balance Beginning of Year</i>	157,147	157,147	157,147	0
Prior Year Encumbrances Appropriated	250	250	250	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$20,199</u>	<u>\$332,102</u>	<u>\$311,903</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, 2017*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,088,525	\$1,088,525	\$1,089,979	\$1,454
Intergovernmental	155,000	155,000	151,148	(3,852)
Other	40,000	40,000	56,194	16,194
<i>Total Revenues</i>	1,283,525	1,283,525	1,297,321	13,796
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,606,880	1,606,880	1,228,339	378,541
<i>Excess of Revenues Over (Under) Expenditures</i>	(323,355)	(323,355)	68,982	392,337
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	3,500	3,500
<i>Net Change in Fund Balance</i>	(323,355)	(323,355)	72,482	395,837
<i>Fund Balance Beginning of Year</i>	323,105	323,105	323,105	0
Prior Year Encumbrances Appropriated	250	250	250	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$395,837</u>	<u>\$395,837</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, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$961,694	\$961,694	\$963,807	\$2,113
Charges for Services	319,000	319,000	398,875	79,875
Intergovernmental	135,000	135,000	133,487	(1,513)
Contributions and Donations	1,000	1,000	175	(825)
Other	5,000	5,000	25,053	20,053
<i>Total Revenues</i>	<u>1,421,694</u>	<u>1,421,694</u>	<u>1,521,397</u>	<u>99,703</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	<u>1,438,594</u>	<u>1,438,594</u>	<u>1,292,330</u>	<u>146,264</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(16,900)</u>	<u>(16,900)</u>	<u>229,067</u>	<u>245,967</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	100,000	100,000	100,000	0
Advances Out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
<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>	<u>(16,900)</u>	<u>(16,900)</u>	<u>229,067</u>	<u>245,967</u>
<i>Fund Balance Beginning of Year</i>	16,650	16,650	16,650	0
Prior Year Encumbrances Appropriated	<u>250</u>	<u>250</u>	<u>250</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$245,967</u></u>	<u><u>\$245,967</u></u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Funds*  
*December 31, 2017*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$371,704	\$291,946	\$663,650
Accounts Receivable	248,209	320,366	568,575
Prepaid Items	1,621	544	2,165
<i>Total Current Assets</i>	<u>621,534</u>	<u>612,856</u>	<u>1,234,390</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	338,412	687	339,099
Depreciable Capital Assets, Net	5,646,173	4,061,255	9,707,428
<i>Total Noncurrent Assets</i>	<u>5,984,585</u>	<u>4,061,942</u>	<u>10,046,527</u>
<i>Total Assets</i>	<u>6,606,119</u>	<u>4,674,798</u>	<u>11,280,917</u>
<b>Deferred Outflows of Resources</b>			
Pension	146,644	141,355	287,999
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	12,009	1,525	13,534
Accrued Wages	1,611	1,635	3,246
Intergovernmental Payable	4,510	4,505	9,015
Compensated Absences Payable	8,846	8,846	17,692
Accrued Interest Payable	14,128	0	14,128
OPWC Loans Payable	164,120	0	164,120
OWDA Loans Payable	54,288	0	54,288
<i>Total Current Liabilities</i>	<u>259,512</u>	<u>16,511</u>	<u>276,023</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	27,872	24,986	52,858
OPWC Loans Payable	2,454,770	0	2,454,770
OWDA Loans Payable	887,604	0	887,604
Net Pension Liability	369,753	369,753	739,506
<i>Total Long-Term Liabilities</i>	<u>3,739,999</u>	<u>394,739</u>	<u>4,134,738</u>
<i>Total Liabilities</i>	<u>3,999,511</u>	<u>411,250</u>	<u>4,410,761</u>
<b>Deferred Inflows of Resources</b>			
Pension	2,972	3,090	6,062
<b>Net Position</b>			
Net Investment in Capital Assets	2,423,803	4,061,942	6,485,745
Unrestricted	326,477	339,871	666,348
<i>Total Net Position</i>	<u>\$2,750,280</u>	<u>\$4,401,813</u>	<u>\$7,152,093</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, 2017*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$904,691	\$1,183,417	\$2,088,108
Tap-In Fees	16,180	6,930	23,110
Other	37,513	4,113	41,626
<i>Total Operating Revenues</i>	<u>958,384</u>	<u>1,194,460</u>	<u>2,152,844</u>
<b>Operating Expenses</b>			
Personal Services	184,119	403,421	587,540
Materials and Supplies	63,525	30,401	93,926
Contractual Services	338,145	576,007	914,152
Depreciation	185,490	194,214	379,704
<i>Total Operating Expenses</i>	<u>771,279</u>	<u>1,204,043</u>	<u>1,975,322</u>
<i>Operating Income (Loss)</i>	<u>187,105</u>	<u>(9,583)</u>	<u>177,522</u>
<b>Non-Operating Revenues (Expenses)</b>			
Gain on Sale of Capital Assets	2,125	2,125	4,250
Interest and Fiscal Charges	(28,654)	0	(28,654)
<i>Total Non-Operating Expenses</i>	<u>(26,529)</u>	<u>2,125</u>	<u>(24,404)</u>
<i>Change in Net Position</i>	160,576	(7,458)	153,118
<i>Net Position Beginning</i>	<u>2,589,704</u>	<u>4,409,271</u>	<u>6,998,975</u>
<i>Net Position End of Year</i>	<u><u>\$2,750,280</u></u>	<u><u>\$4,401,813</u></u>	<u><u>\$7,152,093</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, 2017

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$786,095	\$1,047,051	\$1,833,146
Tap In Fees	16,180	6,930	23,110
Other Operating Revenues	37,513	4,113	41,626
Cash Payments to Suppliers for Materials and Supplies	(59,077)	(29,966)	(89,043)
Cash Payments for Employee Services and Benefits	(128,908)	(352,672)	(481,580)
Cash Payments for Contractual Services	(328,109)	(571,365)	(899,474)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>323,694</u>	<u>104,091</u>	<u>427,785</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advances In	0	100,000	100,000
Advances Out	0	(100,000)	(100,000)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from Sale of Capital Assets	2,125	2,125	4,250
Acquisition of Capital Assets	(308,029)	(12,206)	(320,235)
OPWC Loans Issued	278,488	0	278,488
Principal Paid on OPWC Loans	(86,467)	0	(86,467)
Principal Paid on OWDA Loans	(26,505)	0	(26,505)
Interest Paid on OWDA Loans	(14,526)	0	(14,526)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(154,914)</u>	<u>(10,081)</u>	<u>(164,995)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	168,780	94,010	262,790
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>202,924</u>	<u>197,936</u>	<u>400,860</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$371,704</u>	<u>\$291,946</u>	<u>\$663,650</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Income (Loss)	<u>\$187,105</u>	<u>(\$9,583)</u>	<u>\$177,522</u>
Adjustments:			
Depreciation	185,490	194,214	379,704
(Increase) Decrease in Assets and Deferred Outflows:			
Accounts Receivable	(118,596)	(136,366)	(254,962)
Prepaid Items	2,475	3,552	6,027
Deferred Outflow - Pension	52,389	47,856	100,245
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	12,009	1,525	13,534
Accrued Wages	49	(52)	(3)
Intergovernmental Payable	175	140	315
Compensated Absences Payable	(447)	(140)	(587)
Net Pension Liability	8,278	8,278	16,556
Deferred Inflow - Pension	(5,233)	(5,333)	(10,566)
<i>Total Adjustments</i>	<u>136,589</u>	<u>113,674</u>	<u>250,263</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$323,694</u>	<u>\$104,091</u>	<u>\$427,785</u>

See accompanying notes to the basic financial statements

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**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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**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. This is a jointly governed organization and is 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, 2017*

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***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, 2017*

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

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

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

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

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

***Measurement Focus***

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

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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***Basis of Accounting***

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes and grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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, 2017, but which were levied to finance 2018 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 Balances 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)

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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

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

***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 2017 amounted to \$1,206 which includes \$1,010 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, 2017, 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 acquisition value 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, 2017*

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, 2017*

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***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 2018’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, 2017*

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***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**  
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For the Year Ended December 31, 2017

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	Other Governmental Funds	Total
<i><b>Nonspendable</b></i>					
Prepays	\$5,548	\$4,128	\$3,134	\$544	\$13,354
<i><b>Restricted for</b></i>					
Public Safety	0	366,206	266,460	5,255	637,921
Street Maintenance	0	0	0	222,401	222,401
Community Improvement	0	0	0	67,603	67,603
Capital Improvements	0	0	0	140,808	140,808
<i>Total Restricted</i>	<u>0</u>	<u>366,206</u>	<u>266,460</u>	<u>436,067</u>	<u>1,068,733</u>
<i><b>Committed to</b></i>					
Capital Improvements	0	0	0	1,528	1,528
<i><b>Assigned to</b></i>					
2018 Operations	254,684	0	0	0	254,684
<i>Unassigned</i>	<u>89,270</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>89,270</u>
<i>Total Fund Balances</i>	<u>\$349,502</u>	<u>\$370,334</u>	<u>\$269,594</u>	<u>\$438,139</u>	<u>\$1,427,569</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

**Note 4 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Unrecorded cash represents amounts received and not reported by the City on the operating statements (budget), but reported on the GAAP basis operating statements.
4. 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
GAAP Basis	\$163,687	\$57,384	(\$3,971)
Net Adjustments for Revenue Accruals	1,172	0	53,550
Beginning Unrecorded Cash	2,084	0	0
Ending Unrecorded Cash	(1,243)	0	0
Advances In	0	0	100,000
Net Adjustments for Expenditure Accruals	9,005	15,098	179,488
Advances Out	0	0	(100,000)
Budget Basis	<u>\$174,705</u>	<u>\$72,482</u>	<u>\$229,067</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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**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.

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

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

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

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,649,552 of the City's bank balance of \$2,254,357 was uninsured and uncollateralized. Although 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 the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least one hundred five percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited a a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be one hundred two percent of the deposits being secured or a rate set by the Treasurer of State.

The City's four financial institutions were in the process of joining OPCS; however, at December 31, 2017, the financial institutions still maintained their own 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 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes were levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

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

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. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$22.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2017 property tax receipts were based are as follows:

Real Property	\$130,785,550
Public Utility Personal Property	2,443,210
Total	\$133,228,760

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, 2017, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 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, 2017, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services) and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

A summary of the principal items of intergovernmental receivables follows:

	Amount
Homestead and Rollback	\$168,395
Gasoline Tax	105,339
Auto License	46,641
Local Government	26,913
BWC True-Up Refund	1,622
Total	\$348,910

**City of Cortland, Ohio**  
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**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, 2017.

**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 - Capital Assets**

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
Governmental Activities:				
Capital assets not being depreciated				
Land	\$17,576	\$0	\$0	\$17,576
Capital assets being depreciated				
Buildings and Improvements	1,044,672	0	0	1,044,672
Furniture, Fixtures and Equipment	824,695	16,800	(45,694)	795,801
Vehicles	1,413,125	80,376	(106,390)	1,387,111
Infrastructure:				
Roads	4,510,826	196,520	(158,568)	4,548,778
Storm Sewers	2,068,793	50,650	0	2,119,443
Sidewalks	897,096	157,186	0	1,054,282
Curbs	829,353	0	0	829,353
Total capital assets being depreciated	<u>11,588,560</u>	<u>501,532</u>	<u>(310,652)</u>	<u>11,779,440</u>
Accumulated depreciation				
Buildings and Improvements	(673,911)	(17,898)	0	(691,809)
Furniture, Fixtures and Equipment	(624,611)	(39,943)	42,334	(622,220)
Vehicles	(1,064,094)	(71,896)	104,522	(1,031,468)
Infrastructure:				
Roads	(3,110,419)	(370,997)	158,568	(3,322,848)
Storm Sewers	(267,661)	(42,389)	0	(310,050)
Sidewalks	(103,404)	(26,357)	0	(129,761)
Curbs	(103,899)	(16,587)	0	(120,486)
Total accumulated depreciation	<u>(5,947,999)</u>	<u>(586,067) *</u>	<u>305,424</u>	<u>(6,228,642)</u>
Capital assets being depreciated, net	<u>5,640,561</u>	<u>(84,535)</u>	<u>(5,228)</u>	<u>5,550,798</u>
Governmental activities capital assets, net	<u>\$5,658,137</u>	<u>(\$84,535)</u>	<u>(\$5,228)</u>	<u>\$5,568,374</u>



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
<b>Business type Activities:</b>				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Construction in progress	0	294,012	0	294,012
Total capital assets not being depreciated	45,087	294,012	0	339,099
Capital assets being depreciated				
Furniture, Fixtures and Equipment	230,819	0	0	230,819
Vehicles	403,231	26,223	(25,686)	403,768
Infrastructure:				
Water Lines	8,899,770	0	0	8,899,770
Sewer Lines	9,149,575	0	0	9,149,575
Total capital assets being depreciated	18,683,395	26,223	(25,686)	18,683,932
Accumulated depreciation				
Furniture, Fixtures and Equipment	(168,819)	(10,400)	0	(179,219)
Vehicles	(228,302)	(29,244)	25,686	(231,860)
Infrastructure:				
Water Lines	(3,153,527)	(172,843)	0	(3,326,370)
Sewer Lines	(5,071,838)	(167,217)	0	(5,239,055)
Total accumulated depreciation	(8,622,486)	(379,704)	25,686	(8,976,504)
Capital assets being depreciated, net	10,060,909	(353,481)	0	9,707,428
Business type Activities capital assets, net	\$10,105,996	(\$59,469)	\$0	\$10,046,527

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

General Government	\$73,908
Security of Persons and Property	74,532
Transportation	395,238
Basic Utility Services	42,389
Total	\$586,067

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2017

**Note 10 - Long-term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
<b>Business-Type Activities</b>			
<i>Ohio Public Works Commission Loans:</i>			
North High Street - 1998	0%	352,685	2018
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%	325,759	2036
South Mecca Waterline Replacement -2016	0%	607,500	N/A
<i>Ohio Water Development Authority Loan:</i>			
Water Storage Tank - 2010	3.20%	1,233,794	2031
<b>Governmental Activities</b>			
<i>Ohio Public Works Commission Loans:</i>			
South Colonial Storm Sewer - 2014	0%	301,835	2034

Changes in long-term obligations of the City during 2017 were as follows:

	Outstanding 12/31/2016	Additions	Reductions	Outstanding 12/31/2017	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
North High Street	\$17,635	\$0	\$8,817	\$8,818	\$8,818
Southern Waterline	172,672	0	8,222	164,450	16,445
North High Street II Waterline	313,820	0	12,070	301,750	24,140
Willow Park Tank Replacement	658,500	0	21,950	636,550	43,900
North Wellfield Interconnect	198,576	0	6,619	191,957	13,239
Downtown Waterline Replacement	355,130	0	10,445	344,685	20,890
Downtown Waterline Replacement Phase II	377,396	0	10,200	367,196	20,400
Downtown Waterline Replacement Phase II	317,615	0	8,144	309,471	16,288
South Mecca Waterline Replacement	15,525	278,488	0	294,013	0
<i>Total OPWC Loans</i>	<u>2,426,869</u>	<u>278,488</u>	<u>86,467</u>	<u>2,618,890</u>	<u>164,120</u>
<b>Ohio Water Development Authority Loan</b>					
Water Storage Tank	968,397	0	26,505	941,892	54,288
<b>Other Long-Term Liabilities</b>					
Net Pension Liability OPERS:					
Water	283,611	86,142	0	369,753	0
Sewer	283,610	86,143	0	369,753	0
<i>Total Net Pension Liability</i>	<u>567,221</u>	<u>172,285</u>	<u>0</u>	<u>739,506</u>	<u>0</u>
Compensated Absences	71,137	19,544	20,131	70,550	17,692
<i>Total Other Long-Term Liabilities</i>	<u>638,358</u>	<u>191,829</u>	<u>20,131</u>	<u>810,056</u>	<u>17,692</u>
<i>Total Business Type Activities</i>	<u>\$4,033,624</u>	<u>\$470,317</u>	<u>\$133,103</u>	<u>\$4,370,838</u>	<u>\$236,100</u>

**City of Cortland, Ohio**  
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	Outstanding 12/31/2016	Additions	Reductions	Outstanding 12/31/2017	Due Within One Year
<b>Governmental Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
South Colonial Storm Sewer	\$256,559	\$0	\$7,546	\$249,013	\$15,092
<b>Net Pension Liability</b>					
OPERS	464,089	140,963	0	605,052	0
OP&F	3,534,779	0	150,577	3,384,202	0
<i>Total Net Pension Liability</i>	<u>3,998,868</u>	<u>140,963</u>	<u>150,577</u>	<u>3,989,254</u>	<u>0</u>
Compensated Absences	291,601	130,437	81,925	340,113	64,361
<i>Total Governmental Type Activities</i>	<u>\$4,547,028</u>	<u>\$271,400</u>	<u>\$240,048</u>	<u>\$4,578,380</u>	<u>\$79,453</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. There is no repayment schedule for the net pension liability. However, employer pension contributions are made 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. See Note 13 for additional information related to the net pension liability.

The City's overall legal debt margin was \$13,740,007 at December 31, 2017. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017, are as follows:

A line of credit has been established with the Ohio Public Works Commission in the amount of \$607,500 for the South Mecca Street Waterline Replacement 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, 2017, the City has received \$294,013 in proceeds.

*Business Type Activities*

Year	OPWC Loans	OWDA Loan	
	Principal	Principal	Interest
2018	\$164,120	\$54,288	\$27,852
2019	155,301	56,039	26,211
2020	155,301	57,847	24,516
2021	155,302	59,713	22,767
2022	155,301	61,639	20,961
2023-2027	776,506	339,331	75,615
2028-2032	605,360	313,035	21,521
2033-2036	157,686	0	0
Total	<u>\$2,324,877</u>	<u>\$941,892</u>	<u>\$219,443</u>

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

Year	OPWC Loans Principal
2018	\$15,092
2019	15,092
2020	15,092
2021	15,092
2022	15,092
2023-2027	75,460
2028-2032	75,456
2033	22,637
Total	\$249,013

**Note 11 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2017, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Public Entities Pool of Ohio	Commercial Automobile	\$2,000,000
	Public Officials Liability	2,000,000
	Commercial Property	6,953,071
	Inland Marine	1,035,519
	Employee Dishonesty	50,000
	Forgery	10,000
	Theft, Disappearance and Destruction:	10,000
Cincinnati Insurance Company	Bonds - Employees and Officials	25,000

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

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

**Note 12 - Compensated Absences**

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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**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.

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.

**City of Cortland, Ohio**  
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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, including requirements for reduced and unreduced benefits):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
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
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
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 \$98,703 for 2017. Of this amount, \$14,263 is reported as an intergovernmental payable.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://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 OP&F may retire and receive a lifetime monthly pension. OP&F 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.

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. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F 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, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
<b>2017 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2017 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$244,327 for 2017. Of this amount, \$38,060 is reported as an intergovernmental payable.

***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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. 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:



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	<u>OPERS</u>	<u>OP&amp;F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0059210%	0.0534300%	
Prior Measurement Date	<u>0.0059540%</u>	<u>0.0549470%</u>	
Change in Proportionate Share	<u>-0.0000330%</u>	<u>-0.0015170%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,344,558	\$3,384,202	\$4,728,760
Pension Expense	\$270,797	\$398,651	\$669,448

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$1,822	\$957	\$2,779
Changes of assumptions	213,263	0	213,263
Net difference between projected and actual earnings on pension plan investments	200,236	329,099	529,335
Changes in proportion and differences between City contributions and proportionate share of contributions	5,289	0	5,289
City contributions subsequent to the measurement date	<u>98,703</u>	<u>244,327</u>	<u>343,030</u>
Total Deferred Outflows of Resources	<u>\$519,313</u>	<u>\$574,383</u>	<u>\$1,093,696</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$8,002	\$7,791	\$15,793
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>23,265</u>	<u>134,921</u>	<u>158,186</u>
Total Deferred Inflows of Resources	<u>\$31,267</u>	<u>\$142,712</u>	<u>\$173,979</u>

\$343,030 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**City of Cortland, Ohio**  
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Year Ending December 31:	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
2018	\$153,672	\$95,605	\$249,277
2019	170,481	95,605	266,086
2020	71,061	65,782	136,843
2021	(5,871)	(51,711)	(57,582)
2022	0	(16,616)	(16,616)
Thereafter	<u>0</u>	<u>(1,321)</u>	<u>(1,321)</u>
Total	<u>\$389,343</u>	<u>\$187,344</u>	<u>\$576,687</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 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 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

**City of Cortland, Ohio**  
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For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, 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, 2015. The prior 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.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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 2016 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, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

**Discount Rate** The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 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 contractually required rates, as actuarially determined. 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
County's proportionate share of the net pension liability	\$2,054,113	\$1,344,558	\$753,270

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F'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, 2017*

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
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
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 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 OP&F's target asset allocation as of December 31, 2016, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
	<u>120.00 %</u>	

Total

Note: Assumptions are geometric.

\* levered 2x

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F'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.

**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	\$4,507,357	\$3,384,202	\$2,432,314

***Changes between Measurement Date and Report Date***

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

**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 pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016 and 2015 was \$7,593, \$15,308 and \$14,820 respectively. For 2017, 86.58 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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***Police and Fire Pension Fund***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F 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.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.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 OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements 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 OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F 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 contribution to OP&F for the years ended December 31, 2017, 2016 and 2015 were \$244,327, \$259,328 and \$241,252 respectively, of which \$5,749, \$5,934 and \$5,522, respectively, was allocated to the healthcare plan. For 2017, 84.58 percent has been contributed for both police and firefighters with the balance being reported as an *intergovernmental payable*. The full amount has been contributed for 2016 and 2015.



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 15 - Jointly Governed Organization**

***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 2017, the City contributed \$7,568 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

**Note 16 – Change in Accounting Principle**

For 2017, the City implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

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## Required Supplementary Information

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**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 Four Years (1) \**

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0059210%	0.0059540%	0.0063080%	0.0063080%
City's Proportionate Share of the Net Pension Liability	\$1,344,558	\$1,031,310	\$760,815	\$743,631
City's Covered Payroll	\$765,400	\$741,031	\$773,317	\$652,104
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.67%	139.17%	98.38%	114.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

\* Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

**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 Four Years (1) \**

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0534300%	0.0549470%	0.0569253%	0.0569253%
City's Proportionate Share of the Net Pension Liability	\$3,384,202	\$3,534,779	\$2,948,968	\$2,772,441
City's Covered Payroll	\$1,186,883	\$1,104,393	\$1,117,497	\$1,002,768
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	285.13%	320.07%	263.89%	276.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

\* Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$98,703	\$91,848	\$88,924	\$92,798	\$84,773
Contributions in Relation to the Contractually Required Contribution	<u>(98,703)</u>	<u>(91,848)</u>	<u>(88,924)</u>	<u>(92,798)</u>	<u>(84,773)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$759,254	\$765,400	\$741,031	\$773,317	\$652,104
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2013 is not available. An additional column will be added each year.

See accompanying notes to the required supplementary information

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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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$244,327	\$253,394	\$235,730	\$238,229
Contributions in Relation to the Contractually Required Contribution	<u>(244,327)</u>	<u>(253,394)</u>	<u>(235,730)</u>	<u>(238,229)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,149,749	\$1,186,883	\$1,104,393	\$1,117,497
Contributions as a Percentage of Covered Payroll:	21.25%	21.35%	21.34%	21.32%

See accompanying notes to the required supplementary information



<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$181,676	\$153,278	\$161,665	\$151,513	\$149,066	\$148,089
<u>(181,676)</u>	<u>(153,278)</u>	<u>(161,665)</u>	<u>(151,513)</u>	<u>(149,066)</u>	<u>(148,089)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,002,768	\$1,012,026	\$1,076,167	\$1,007,856	\$991,580	\$987,131
18.12%	15.15%	15.02%	15.03%	15.03%	15.00%

**City of Cortland, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2017*

**Changes in Assumptions - OPERS**

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates 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.

# OHIO AUDITOR OF STATE KEITH FABER



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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, (the City) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 14, 2019, wherein we noted the City adopted Governmental Accounting Standards Board Statement 75.

### ***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 material weaknesses 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 findings 2018-002 through 2018-004 described in the accompanying schedule of findings to be material weaknesses.

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 2018-005 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

### ***City's Response to Findings***

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the City's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### ***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.



Keith Faber  
Auditor of State

Columbus, Ohio

November 14, 2019

CITY OF CORTLAND  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 and 2017

1. Pledged Collateral

<i>Finding Number</i>	2018-001
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NONCOMPLIANCE

**Ohio Rev. Code § 135.18(B)** indicates if a public depository elects to provide security pursuant to Ohio Rev. Code § 135.18(A)(1), the public depository must pledge eligible securities equal to at least one hundred five per cent.

**Ohio Rev. Code § 135.18(C)** says “the public depository and the public depositor shall first execute an agreement that sets forth the entire arrangement” which shall:

- meet the requirements of 12 USC 1823(e)
- authorize the public depositor to obtain control of the collateral pursuant to Ohio Rev. Code § 1308.24(D)

**Ohio Rev. Code § 135.18(E)** says a public depository shall designate a qualified trustee and place the eligible securities with the trustee for safekeeping. The trustee shall:

- hold the eligible securities in an account indicating the public depositor’s security interest in the securities, and
- report to the public depositor information relating to the securities pledged to secure the public deposits in the manner and frequency required by the public depositor

The City had deposits with a local bank in the amount of \$1,111,763.68 at December 31, 2018, however, the bank was not enrolled in the State Treasurer’s Ohio Pooled Collateral System, therefore, requiring a specific collateral arrangement as detailed above. The City did not provide a specific pledged collateral agreement with Chemical Bank.

The City should execute specific collateral agreements with any financial institutions not enrolled in the Ohio Pooled Collateral System. The City should monitor their deposit balances, with their financial institution throughout the year, to ensure they are collateralized as required.

**Officials’ Response:** The local bank had stated they had all the proper paperwork with the State to be in the pooled collateral system, but it ended up they did not. The City has pulled out enough funds so the balance is below \$250,000 to be FDIC.

2. Capital Assets – South Mecca Waterline

<i>Finding Number</i>	2018-002
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MATERIAL WEAKNESS

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

In 2017, the City began a construction project for the South Mecca Waterline Replacement. The City capitalized the related project assets in the amount of \$515,249 and also recorded depreciation expense in the amount of \$10,305. Project expenses in 2017 were only \$294,012. The City recorded the entire project in 2017 instead of using a construction in progress account over the entire project period. These errors overstated the 2017 Business Type Activities and Water Fund Capital Assets and Depreciation Expense in the amount of \$210,932 and \$10,305 respectively; in addition, Business Type Activities and Water Fund Contractual Services were understated by \$221,237. Assets were not properly classified as Nondepreciable for the construction in progress.

The failure to properly account for the project correctly in 2017 also caused an overstatement of the 2018 Business Type Activities and Water Fund Net Position beginning of the year balance in the amount of \$210,932. The City capitalized the project in the amount of \$515,249, while actual project expenses totaled \$599,756 over the two year period. Project expenditures in 2018 were \$305,744. These errors caused Business Type Activities and Water Fund capital assets to be understated in the amount of \$94,812; in addition, Business Type Activities and Water Fund Contractual Services were overstated by \$305,744.

The control procedures over the review of construction projects and the financial statements failed to recognize errors and omissions because the procedures were inadequate. The City has adjusted their 2017 and 2018 financial statements accordingly.

The City should review transaction postings to the accounting system and trial balances to help ensure amounts are properly reflected in the financial statements.

**Officials' Response:** The service director was informed years ago and in years past to capitalize assets as soon as pipe is in the ground. I will inform the service director.

**3. Budget and Actual – Police Levy Fund 2017**

<i>Finding Number</i>	2018-003
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MATERIAL WEAKNESS

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The City reported Police Levy Fund Final budgeted property tax and intergovernmental revenues in the amount of \$1,243,525 and \$0 respectively. The City should have recorded Property Tax in the amount of \$1,088,525 and Intergovernmental revenue in the amount of \$155,000.

The control procedures over the review of the financial statements failed to recognize errors and omissions because the procedures were inadequate. The City has adjusted their financial statements accordingly.

The City should review transaction postings to the accounting system and trial balances to help ensure amounts are properly reflected in the financial statements.

**Officials' Response:** Rollback and homestead will be reported properly.

**4. Net Position – 2017**

<i>Finding Number</i>	2018-004
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MATERIAL WEAKNESS

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The City did not properly classify Restricted Net Position for Police, Fire, and Street Construction, Maintenance, and Repair of Governmental Activities. The balances were understated in the amounts of \$371,762, 238,601, and 297,872 respectively; Net Position Other Purposes was overstated in the amount of \$908,235.

The control procedures over the review of the financial statements failed to recognize errors and omissions because the procedures were inadequate. The City has adjusted their financial statements accordingly.

The City should review transaction postings to the trial balances to help ensure amounts are properly reflected in the financial statements.

**Officials' Response:** Classification error and will watch it is proper in the future.

**5. Interfund Advances**

<i>Finding Number</i>	2018-005
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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 an improper advance from the Sewer Fund to the Fire Levy Fund in the amount of \$100,000 in 2017. The advance was repaid to the Sewer Fund before year end.

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. Sewer fund revenue is designated for the operations of the utility departments and should not be used for Fire Levy Fund activity.

The advance transactions have been eliminated on the financial statements and the advances were repaid in 2017.

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

**Officials' Response:** The City longer advances from other funds.





# City of Cortland

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2018 and 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	City did not record or report ODOT monies	Partially corrected	Management Letter recommendation #2.
2016-002	City had posting and reporting errors (initially occurred in 2015)	Not corrected	Findings 2018-002, 2018-003, and 2018-004
2016-003	City made illegal advances (initially occurred in 2015)	Not corrected	Finding 2018-005

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# OHIO AUDITOR OF STATE KEITH FABER



**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  
DECEMBER 19, 2019**