



Dave Yost • Auditor of State



**CITY OF CORTLAND  
TRUMBULL COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, Police, and Fire Levy funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

December 11, 2017

**City of Cortland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2016*  
*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, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

***Financial Highlights***

- The City's net position decreased during 2016 due to an increase in the net pension liability and to a decrease in capital assets resulting from current year depreciation outpacing current year additions.
- During 2016, the City received new OPWC monies for the Downtown and South Mecca Waterline Replacement projects.
- In 2016, capital asset additions consisted of the purchase of furniture, fixtures, equipment, vehicles and infrastructure improvements to roads, storm sewers and sidewalks.

***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 2016?" 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.

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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 2016 compared to 2015.

**Table 1**  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and Other Assets	\$4,337,480	\$4,201,478	\$722,665	\$865,273	\$5,060,145	\$5,066,751
Capital Assets, Net	5,658,137	5,736,453	10,105,996	10,403,595	15,764,133	16,140,048
<i>Total Assets</i>	<u>9,995,617</u>	<u>9,937,931</u>	<u>10,828,661</u>	<u>11,268,868</u>	<u>20,824,278</u>	<u>21,206,799</u>
<b>Deferred Outflows of Resources</b>						
Pension	1,006,467	427,588	227,065	64,759	1,233,532	492,347
<b>Liabilities</b>						
Current Liabilities	50,617	90,453	11,949	20,813	62,566	111,266
Long-Term Liabilities						
Due Within One Year	97,017	33,903	246,501	216,019	343,518	249,922
Due in More Than One Year						
Net Pension Liability	3,998,868	3,329,376	567,221	380,407	4,566,089	3,709,783
Other Amounts	451,143	525,395	3,219,902	3,415,755	3,671,045	3,941,150
<i>Total Liabilities</i>	<u>\$4,597,645</u>	<u>\$3,979,127</u>	<u>\$4,045,573</u>	<u>\$4,032,994</u>	<u>\$8,643,218</u>	<u>\$8,012,121</u>

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Deferred Inflows of Resources</b>						
Property Tax	\$2,556,213	\$2,486,053	\$0	\$0	\$2,556,213	\$2,486,053
Pension	138,890	6,683	11,178	6,683	150,068	13,366
<i>Total Deferred Inflows of Resources</i>	<u>2,695,103</u>	<u>2,492,736</u>	<u>11,178</u>	<u>6,683</u>	<u>2,706,281</u>	<u>2,499,419</u>
<b>Net Position</b>						
Net Investment in Capital Assets	5,401,578	5,457,256	6,710,730	6,840,219	12,112,308	12,297,475
Restricted for:						
Capital Projects	137,333	215,067	0	0	137,333	215,067
Police	364,733	223,043	0	0	364,733	223,043
Fire	256,822	261,163	0	0	256,822	261,163
Street Construction, Maintenance and Repair	273,485	291,918	0	0	273,485	291,918
Other Purposes	117,313	112,791	0	0	117,313	112,791
Unrestricted (Deficit)	<u>(2,841,928)</u>	<u>(2,667,582)</u>	<u>288,245</u>	<u>453,731</u>	<u>(2,553,683)</u>	<u>(2,213,851)</u>
<i>Total Net Position</i>	<u>\$3,709,336</u>	<u>\$3,893,656</u>	<u>\$6,998,975</u>	<u>\$7,293,950</u>	<u>\$10,708,311</u>	<u>\$11,187,606</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 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.

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

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

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

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

Total assets for governmental activities increased due to an increase in cash and cash equivalents and property tax receivable resulting from an increase in the assessed value of real and public utility tangible personal property that was offset by a decrease in capital assets due to annual depreciation outpacing current year additions. The decrease in current liabilities was due to a decrease in intergovernmental payable attributed to workers' compensation being billed and paid prospectively. The increase in long-term liabilities was due to an increase in the net pension liability partially offset by a decrease in long-term debt obligations resulting from annual pay downs.

Total assets for business-type activities decreased due to a reduction in net capital assets attributed to annual depreciation exceeding current year additions. Total liabilities for business-type activities increased slightly due to an increase in the net pension liability which was partially offset by a decrease in long-term debt obligations resulting from annual pay downs.

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

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the year. The following table provides a summary of the City's changes in net position for 2016 compared to 2015.

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

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$448,281	\$565,123	\$1,584,062	\$1,716,878	\$2,032,343	\$2,282,001
Operating Grants and Contributions	738,586	882,031	0	0	738,586	882,031
Capital Grants	66,451	201,408	0	0	66,451	201,408
<b>Total Program Revenues</b>	<b>1,253,318</b>	<b>1,648,562</b>	<b>1,584,062</b>	<b>1,716,878</b>	<b>2,837,380</b>	<b>3,365,440</b>
General Revenues						
Property Taxes	2,519,545	2,140,666	0	0	2,519,545	2,140,666
Grants and Entitlements	136,672	151,353	0	0	136,672	151,353
Investment Earnings	5,749	5,035	0	0	5,749	5,035
Other	53,603	69,113	34,767	28,346	88,370	97,459
<b>Total General Revenues</b>	<b>2,715,569</b>	<b>2,366,167</b>	<b>34,767</b>	<b>28,346</b>	<b>2,750,336</b>	<b>2,394,513</b>
<b>Total Revenues</b>	<b>3,968,887</b>	<b>4,014,729</b>	<b>1,618,829</b>	<b>1,745,224</b>	<b>5,587,716</b>	<b>5,759,953</b>
<b>Program Expenses</b>						
General Government	600,043	451,960	0	0	600,043	451,960
Security of Persons and Property	2,928,349	2,556,190	0	0	2,928,349	2,556,190
Public Health and Welfare	0	640	0	0	0	640
Leisure Time Activities	15,209	24,957	0	0	15,209	24,957
Community Environment	23,494	342,180	0	0	23,494	342,180
Transportation	573,500	534,111	0	0	573,500	534,111
Basic Utility Services	12,612	10,210	0	0	12,612	10,210
Water	0	0	829,937	916,994	829,937	916,994
Sewer	0	0	1,083,867	1,076,722	1,083,867	1,076,722
<b>Total Program Expenses</b>	<b>4,153,207</b>	<b>3,920,248</b>	<b>1,913,804</b>	<b>1,993,716</b>	<b>6,067,011</b>	<b>5,913,964</b>
Increase (Decrease) in Net Position	(184,320)	94,481	(294,975)	(248,492)	(479,295)	(154,011)
Net Position Beginning of Year	3,893,656	3,799,175	7,293,950	7,542,442	11,187,606	11,341,617
Net Position End of Year	<b>\$3,709,336</b>	<b>\$3,893,656</b>	<b>\$6,998,975</b>	<b>\$7,293,950</b>	<b>\$10,708,311</b>	<b>\$11,187,606</b>

**Governmental Activities**

For governmental activities, there was a decrease in program revenues for 2016. Charges for services decreased due to a drop in ambulance billing charges. Operating grants decreased due to the absence of CHIP grant monies. The drop in capital grants was due less OPWC grant monies being received for projects. The general revenues increased 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 1.9 mill general fund operating levy which was renewed for 5 years at the November 8, 2011 general election, an 8 mill police levy which is continuous and a 6.76 fire levy which is also continuous. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services.

A review of table 2 also shows that program expenses increased from 2015 levels. The increase in governmental expenses can be attributed to increases in general government and security of persons and property. General government increased due to a greater amount of costs being expensed instead of capitalized in 2016. Security of persons and property increased due to an increase in pension expenses.

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

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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	Total Cost	Net Cost	Net Cost
	of Services	of Services	of Services	of Services
	2016	2015	2016	2015
General Government	\$600,043	\$451,960	(\$475,616)	(\$306,868)
Security of Persons and Property	2,928,349	2,556,190	(2,239,976)	(1,877,027)
Public Health and Welfare	0	640	349	(276)
Leisure Time Activities	15,209	24,957	(11,752)	(18,563)
Community Environment	23,494	342,180	(18,154)	(165,659)
Transportation	573,500	534,111	(144,030)	103,529
Basic Utility Services	12,612	10,210	(10,710)	(6,822)
<b>Total</b>	<b>\$4,153,207</b>	<b>\$3,920,248</b>	<b>(\$2,899,889)</b>	<b>(\$2,271,686)</b>

***Business-Type Activities***

Business-type activities include the City's water and sewer operations. In 2016, 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 due to a decrease in total expenditures from careful cost cutting measures. The police levy and fire levy special revenue funds saw increases in fund balances due to increased property tax and intergovernmental revenues as the City continues to seek out additional sources of revenues.

Proprietary funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$1,618,829 and total operating expenses of \$1,884,630. 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.

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***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 2016, 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 2016 balances of capital assets as compared to 2015.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$17,576	\$17,576	\$45,087	\$45,087	\$62,663	\$62,663
Buildings and Improvements	370,761	388,661	0	0	370,761	388,661
Furniture, Fixtures and Equipment	200,084	194,027	62,000	68,025	262,084	262,052
Vehicles	349,031	250,846	174,929	126,443	523,960	377,289
Infrastructure	4,720,685	4,885,343	9,823,980	10,164,040	14,544,665	15,049,383
Total Capital Assets	<u>\$5,658,137</u>	<u>\$5,736,453</u>	<u>\$10,105,996</u>	<u>\$10,403,595</u>	<u>\$15,764,133</u>	<u>\$16,140,048</u>

For 2016, the primary additions for governmental activities included the purchase of vehicle, furniture, fixtures, equipment and infrastructure improvements to roads, storm sewers and sidewalks.

Capital asset additions for business-type activities consisted of furniture, fixtures, equipment and vehicles.

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, 2016*  
*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	
	2016	2015	2016	2015	2016	2015
OPWC Loans	\$256,559	\$279,197	\$2,426,869	\$2,543,216	\$2,683,428	\$2,822,413
OWDA Loans	0	0	968,397	1,020,160	968,397	1,020,160
Net Pension Liability	3,998,868	3,329,376	567,221	380,407	4,566,089	3,709,783
Compensated Absences	291,601	280,101	71,137	68,398	362,738	348,499
<b>Total</b>	<b>\$4,547,028</b>	<b>\$3,888,674</b>	<b>\$4,033,624</b>	<b>\$4,012,181</b>	<b>\$8,580,652</b>	<b>\$7,900,855</b>

The City's long-term obligations consist only of net pension liability, compensated absences, OPWC loans and OWDA loans. Business-type OPWC loans and OWDA loans are for infrastructure improvement projects and will be repaid using water and sewer revenues. The governmental OPWC loan is for storm sewer improvements and will be repaid from the general fund using storm sewer charges. During 2016, the City received additional proceeds on two OPWC loans, for waterline replacement projects Downtown Phase III and 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, 2016*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$887,504	\$400,860	\$1,288,364
Accounts Receivable	287,950	313,613	601,563
Intergovernmental Receivable	404,399	0	404,399
Prepaid Items	25,272	8,192	33,464
Property Taxes Receivable	2,732,355	0	2,732,355
Nondepreciable Capital Assets	17,576	45,087	62,663
Depreciable Capital Assets, Net	5,640,561	10,060,909	15,701,470
<i>Total Assets</i>	<u>9,995,617</u>	<u>10,828,661</u>	<u>20,824,278</u>
<b>Deferred Outflows of Resources</b>			
Pension	1,006,467	227,065	1,233,532
<b>Liabilities</b>			
Accrued Wages	9,955	3,249	13,204
Intergovernmental Payable	40,662	8,700	49,362
Long-Term Liabilities:			
Due Within One Year	97,017	246,501	343,518
Due In More Than One Year			
Net Pension Liability (See Note 13)	3,998,868	567,221	4,566,089
Other Amounts	451,143	3,219,902	3,671,045
<i>Total Liabilities</i>	<u>4,597,645</u>	<u>4,045,573</u>	<u>8,643,218</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,556,213	0	2,556,213
Pension	138,890	11,178	150,068
<i>Total Deferred Inflows of Resources</i>	<u>2,695,103</u>	<u>11,178</u>	<u>2,706,281</u>
<b>Net Position</b>			
Net Investment in Capital Assets	5,401,578	6,710,730	12,112,308
Restricted for:			
Capital Projects	137,333	0	137,333
Police	364,733	0	364,733
Fire	256,822	0	256,822
Street Construction, Maintenance and Repair	273,485	0	273,485
Other Purposes	117,313	0	117,313
Unrestricted (Deficit)	(2,841,928)	288,245	(2,553,683)
<i>Total Net Position</i>	<u>\$3,709,336</u>	<u>\$6,998,975</u>	<u>\$10,708,311</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2016

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities:</b>				
General Government	\$600,043	\$124,427	\$0	\$0
Security of Persons and Property	2,928,349	312,806	375,567	0
Public Health and Welfare	0	349	0	0
Leisure Time Activities	15,209	3,457	0	0
Community Environment	23,494	5,340	0	0
Transportation	573,500	0	363,019	66,451
Basic Utility Services	12,612	1,902	0	0
<i>Total Governmental Activities</i>	<u>4,153,207</u>	<u>448,281</u>	<u>738,586</u>	<u>66,451</u>
<b>Business-Type Activities:</b>				
Water	829,937	678,061	0	0
Sewer	1,083,867	906,001	0	0
<i>Total Business-Type Activities</i>	<u>1,913,804</u>	<u>1,584,062</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$6,067,011</u>	<u>\$2,032,343</u>	<u>\$738,586</u>	<u>\$66,451</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Police Levy

    Fire Levy

Grants and Entitlements not Restricted  
to Specific Programs

Interest

Other

*Total General Revenues*

Change in Net Position

*Net Position Beginning of Year*

*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>
(\$475,616)	\$0	(\$475,616)
(2,239,976)	0	(2,239,976)
349	0	349
(11,752)	0	(11,752)
(18,154)	0	(18,154)
(144,030)	0	(144,030)
(10,710)	0	(10,710)
<u>(2,899,889)</u>	<u>0</u>	<u>(2,899,889)</u>
0	(151,876)	(151,876)
0	(177,866)	(177,866)
<u>0</u>	<u>(329,742)</u>	<u>(329,742)</u>
<u>(2,899,889)</u>	<u>(329,742)</u>	<u>(3,229,631)</u>
472,570	0	472,570
1,086,153	0	1,086,153
960,822	0	960,822
136,672	0	136,672
5,749	0	5,749
53,603	34,767	88,370
<u>2,715,569</u>	<u>34,767</u>	<u>2,750,336</u>
(184,320)	(294,975)	(479,295)
<u>3,893,656</u>	<u>7,293,950</u>	<u>11,187,606</u>
<u>\$3,709,336</u>	<u>\$6,998,975</u>	<u>\$10,708,311</u>

**City of Cortland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2016*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$159,481	\$323,355	\$16,900	\$387,768	\$887,504
Receivables:					
Taxes	510,940	1,179,185	1,042,230	0	2,732,355
Accounts	14,222	0	273,728	0	287,950
Intergovernmental Receivable	67,197	75,425	66,056	195,721	404,399
Prepaid Items	11,969	7,954	4,096	1,253	25,272
<i>Total Assets</i>	<u>\$763,809</u>	<u>\$1,585,919</u>	<u>\$1,403,010</u>	<u>\$584,742</u>	<u>\$4,337,480</u>
<b>Liabilities</b>					
Accrued Wages	\$1,560	\$3,533	\$3,861	\$1,001	\$9,955
Intergovernmental Payable	6,041	14,826	18,098	1,697	40,662
<i>Total Liabilities</i>	<u>7,601</u>	<u>18,359</u>	<u>21,959</u>	<u>2,698</u>	<u>50,617</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	478,002	1,103,169	975,042	0	2,556,213
Unavailable Revenue	92,391	151,441	132,444	163,192	539,468
<i>Total Deferred Inflows of Resources</i>	<u>570,393</u>	<u>1,254,610</u>	<u>1,107,486</u>	<u>163,192</u>	<u>3,095,681</u>
<b>Fund Balances</b>					
Nonspendable	11,969	7,954	4,096	1,253	25,272
Restricted	0	304,996	269,469	380,703	955,168
Committed	0	0	0	36,896	36,896
Assigned	157,648	0	0	0	157,648
Unassigned	16,198	0	0	0	16,198
<i>Total Fund Balances</i>	<u>185,815</u>	<u>312,950</u>	<u>273,565</u>	<u>418,852</u>	<u>1,191,182</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$763,809</u>	<u>\$1,585,919</u>	<u>\$1,403,010</u>	<u>\$584,742</u>	<u>\$4,337,480</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, 2016*

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<b>Total Governmental Fund Balances</b>	<b>\$1,191,182</b>
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*Amounts reported for governmental activities in the  
 statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,658,137
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	
Delinquent Property Taxes	176,142
Intergovernmental	363,326
Total	539,468

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	1,006,467
Deferred Inflows - Pension	(138,890)
Net Pension Liability	(3,998,868)
Total	(3,131,291)

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
OPWC Loans Payable	(256,559)
Compensated Absences	(291,601)
Total	(548,160)

<i>Net Position of Governmental Activities</i>	<b><u><u>\$3,709,336</u></u></b>
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See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2016*

	General	Police Levy	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$470,518	\$1,080,495	\$955,718	\$0	\$2,506,731
Charges for Services	68,035	0	300,949	0	368,984
Licenses and Permits	72,435	0	0	0	72,435
Fines and Forfeitures	6,264	0	0	598	6,862
Intergovernmental	146,045	150,849	130,514	547,414	974,822
Interest	5,149	0	0	600	5,749
Contributions and Donations	0	0	725	0	725
Other	16,942	33,837	2,773	51	53,603
<i>Total Revenues</i>	<u>785,388</u>	<u>1,265,181</u>	<u>1,390,679</u>	<u>548,663</u>	<u>3,989,911</u>
<b>Expenditures</b>					
Current:					
General Government	546,372	0	0	0	546,372
Security of Persons and Property	51,071	1,136,900	1,390,538	85,450	2,663,959
Leisure Time Activities	15,209	0	0	0	15,209
Community Environment	23,494	0	0	0	23,494
Transportation	0	0	0	261,237	261,237
Basic Utility Services	8,370	0	0	0	8,370
Capital Outlay	43,454	0	0	278,476	321,930
Debt Service:					
Principal Retirement	22,638	0	0	0	22,638
<i>Total Expenditures</i>	<u>710,608</u>	<u>1,136,900</u>	<u>1,390,538</u>	<u>625,163</u>	<u>3,863,209</u>
<i>Net Change in Fund Balance</i>	74,780	128,281	141	(76,500)	126,702
<i>Fund Balances</i>					
<i>Beginning of Year</i>	<u>111,035</u>	<u>184,669</u>	<u>273,424</u>	<u>495,352</u>	<u>1,064,480</u>
<i>Fund Balances End of Year</i>	<u>\$185,815</u>	<u>\$312,950</u>	<u>\$273,565</u>	<u>\$418,852</u>	<u>\$1,191,182</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, 2016*

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**Net Change in Fund Balances - Total Governmental Funds** \$126,702

*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	521,405	
Current Year Depreciation	(599,721)	
Total		(78,316)

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

Delinquent Property Taxes	12,814	
Intergovernmental	(33,838)	
Total		(21,024)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 294,726

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (517,546)

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. 22,638

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. (11,500)

*Change in Net Position of Governmental Activities* (\$184,320)

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, 2016*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$472,546	\$472,546	\$470,518	(\$2,028)
Charges for Services	66,750	66,750	68,867	2,117
Licenses and Permits	77,500	77,500	72,435	(5,065)
Fines and Forfeitures	8,000	8,000	6,020	(1,980)
Intergovernmental	147,521	147,521	145,565	(1,956)
Interest	5,000	5,000	4,404	(596)
Other	15,151	15,150	16,942	1,792
<i>Total Revenues</i>	<u>792,468</u>	<u>792,467</u>	<u>784,751</u>	<u>(7,716)</u>
<b>Expenditures</b>				
Current:				
General Government	709,832	666,051	553,435	112,616
Security of Persons and Property	65,533	53,000	51,071	1,929
Leisure Time Activities	19,516	29,000	15,209	13,791
Community Environment	27,696	47,179	21,584	25,595
Basic Utility Services	10,740	15,550	8,370	7,180
Capital Outlay	65,442	54,744	51,000	3,744
Debt Service:				
Principal Retirement	19,366	15,100	15,092	8
<i>Total Expenditures</i>	<u>918,125</u>	<u>880,624</u>	<u>715,761</u>	<u>164,863</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(125,657)</u>	<u>(88,157)</u>	<u>68,990</u>	<u>157,147</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	137,500	100,000	100,000	0
Advances Out	(100,000)	(100,000)	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>37,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(88,157)	(88,157)	68,990	157,147
<i>Fund Balance Beginning of Year</i>	88,066	88,066	88,066	0
Prior Year Encumbrances Appropriated	91	91	91	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$157,147</u>	<u>\$157,147</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, 2016*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,090,581	\$1,090,581	\$1,080,495	(\$10,086)
Intergovernmental	151,000	151,000	150,849	(151)
Other	40,000	40,000	33,837	(6,163)
<i>Total Revenues</i>	1,281,581	1,281,581	1,265,181	(16,400)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,492,070	1,492,070	1,152,565	339,505
<i>Net Change in Fund Balance</i>	(210,489)	(210,489)	112,616	323,105
<i>Fund Balance Beginning of Year</i>	188,238	188,238	188,238	0
Prior Year Encumbrances Appropriated	22,251	22,251	22,251	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$323,105</u>	<u>\$323,105</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, 2016*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$964,301	\$964,301	\$955,718	(\$8,583)
Charges for Services	319,500	319,500	307,627	(11,873)
Intergovernmental	131,000	131,000	130,514	(486)
Contributions and Donations	500	500	725	225
Other	5,000	5,000	2,773	(2,227)
<i>Total Revenues</i>	1,420,301	1,420,301	1,397,357	(22,944)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,453,975	1,443,975	1,404,381	39,594
<b>Other Financing Sources (Uses)</b>				
Advances In	110,000	100,000	100,000	0
Advances Out	(100,000)	(100,000)	(100,000)	0
<i>Total Other Financing Sources (Uses)</i>	10,000	0	0	0
<i>Net Change in Fund Balance</i>	(23,674)	(23,674)	(7,024)	16,650
<i>Fund Balance Beginning of Year</i>	23,620	23,620	23,620	0
Prior Year Encumbrances Appropriated	54	54	54	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$16,650</u>	<u>\$16,650</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Funds*  
*December 31, 2016*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$202,924	\$197,936	\$400,860
Accounts Receivable	129,613	184,000	313,613
Prepaid Items	4,096	4,096	8,192
<i>Total Current Assets</i>	<u>336,633</u>	<u>386,032</u>	<u>722,665</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	44,400	687	45,087
Depreciable Capital Assets, Net	5,817,646	4,243,263	10,060,909
<i>Total Noncurrent Assets</i>	<u>5,862,046</u>	<u>4,243,950</u>	<u>10,105,996</u>
<i>Total Assets</i>	<u>6,198,679</u>	<u>4,629,982</u>	<u>10,828,661</u>
<b>Deferred Outflows of Resources</b>			
Pension	118,444	108,621	227,065
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accrued Wages	1,562	1,687	3,249
Intergovernmental Payable	4,335	4,365	8,700
Compensated Absences Payable	11,121	9,010	20,131
OPWC Loans Payable	172,937	0	172,937
OWDA Loans Payable	53,433	0	53,433
<i>Total Current Liabilities</i>	<u>243,388</u>	<u>15,062</u>	<u>258,450</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	26,044	24,962	51,006
OPWC Loans Payable	2,253,932	0	2,253,932
OWDA Loans Payable	914,964	0	914,964
Net Pension Liability	283,611	283,610	567,221
<i>Total Long-Term Liabilities</i>	<u>3,478,551</u>	<u>308,572</u>	<u>3,787,123</u>
<i>Total Liabilities</i>	<u>3,721,939</u>	<u>323,634</u>	<u>4,045,573</u>
<b>Deferred Inflows of Resources</b>			
Pension	5,480	5,698	11,178
<b>Net Position</b>			
Net Investment in Capital Assets	2,466,780	4,243,950	6,710,730
Unrestricted	122,924	165,321	288,245
<i>Total Net Position</i>	<u>\$2,589,704</u>	<u>\$4,409,271</u>	<u>\$6,998,975</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, 2016*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$665,791	\$901,545	\$1,567,336
Tap-In Fees	12,270	4,456	16,726
Other	34,705	62	34,767
<i>Total Operating Revenues</i>	<u>712,766</u>	<u>906,063</u>	<u>1,618,829</u>
<b>Operating Expenses</b>			
Personal Services	133,571	356,846	490,417
Materials and Supplies	87,209	61,906	149,115
Contractual Services	395,894	472,122	868,016
Depreciation	184,089	192,993	377,082
<i>Total Operating Expenses</i>	<u>800,763</u>	<u>1,083,867</u>	<u>1,884,630</u>
<i>Operating Income (Loss)</i>	(87,997)	(177,804)	(265,801)
<b>Non-Operating Revenues (Expenses)</b>			
Interest and Fiscal Charges	(29,174)	0	(29,174)
<i>Change in Net Position</i>	(117,171)	(177,804)	(294,975)
<i>Net Position Beginning</i>	<u>2,706,875</u>	<u>4,587,075</u>	<u>7,293,950</u>
<i>Net Position End of Year</i>	<u>\$2,589,704</u>	<u>\$4,409,271</u>	<u>\$6,998,975</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, 2016

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$667,721	\$904,281	\$1,572,002
Tap In Fees	12,270	4,456	16,726
Other Operating Revenues	34,705	62	34,767
Cash Payments to Suppliers for Materials and Supplies	(87,209)	(61,906)	(149,115)
Cash Payments for Employee Services and Benefits	(120,620)	(346,919)	(467,539)
Cash Payments for Contractual Services	(395,237)	(471,465)	(866,702)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>111,630</u>	<u>28,509</u>	<u>140,139</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advances In	100,000	100,000	200,000
Advances Out	(100,000)	(100,000)	(200,000)
<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>			
Acquisition of Capital Assets	(22,492)	(56,991)	(79,483)
OPWC Loans Issued	48,445	0	48,445
Principal Paid on OPWC Loans	(164,792)	0	(164,792)
Principal Paid on OWDA Loans	(51,763)	0	(51,763)
Interest Paid on OWDA Loans	(29,174)	0	(29,174)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(219,776)</u>	<u>(56,991)</u>	<u>(276,767)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(108,146)	(28,482)	(136,628)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>311,070</u>	<u>226,418</u>	<u>537,488</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$202,924</u>	<u>\$197,936</u>	<u>\$400,860</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Income (Loss)	(\$87,997)	(\$177,804)	(\$265,801)
Adjustments:			
Depreciation	184,089	192,993	377,082
(Increase) Decrease in Assets and Deferred Outflows:			
Accounts Receivable	1,930	2,736	4,666
Prepaid Items	657	657	1,314
Deferred Outflow - Pension	22,117	19,363	41,480
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accrued Wages	634	881	1,515
Intergovernmental Payable	(5,204)	(5,175)	(10,379)
Compensated Absences Payable	1,592	1,146	2,738
Net Pension Liability	(2,921)	(2,921)	(5,842)
Deferred Inflow - Pension	(3,267)	(3,367)	(6,634)
<i>Total Adjustments</i>	<u>199,627</u>	<u>206,313</u>	<u>405,940</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$111,630</u>	<u>\$28,509</u>	<u>\$140,139</u>

See accompanying notes to the basic financial statements

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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 and the Emergency Management Agency. These are jointly governed organizations and are presented in Note 15 to the basic financial statements.

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

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

***Basis of Presentation***

The City’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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, 2016*

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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, 2016*

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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, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13)

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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 2016 amounted to \$5,149 which includes \$4,437 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, 2016, 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, 2016*

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, 2016*

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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 2017’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, 2016*

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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**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2016

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	\$11,969	\$7,954	\$4,096	\$1,253	\$25,272
<i><b>Restricted for</b></i>					
Public Safety	0	304,996	269,469	5,418	579,883
Street Maintenance	0	0	0	186,170	186,170
Community Improvement	0	0	0	51,782	51,782
Capital Improvements	0	0	0	137,333	137,333
<i>Total Restricted</i>	<u>0</u>	<u>304,996</u>	<u>269,469</u>	<u>380,703</u>	<u>955,168</u>
<i><b>Committed to</b></i>					
Capital Improvements	0	0	0	36,896	36,896
<i><b>Assigned to</b></i>					
2017 Operations	157,398	0	0	0	157,398
Purchases on Order:					
Contracted Services	250	0	0	0	250
<i>Total Assigned</i>	<u>157,648</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>157,648</u>
<i>Unassigned</i>	<u>16,198</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,198</u>
<i>Total Fund Balances</i>	<u><u>\$185,815</u></u>	<u><u>\$312,950</u></u>	<u><u>\$273,565</u></u>	<u><u>\$418,852</u></u>	<u><u>\$1,191,182</u></u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 4 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balances

	General	Police Levy	Fire Levy
GAAP Basis	\$74,780	\$128,281	\$141
Net Adjustments for Revenue Accruals	(149)	0	6,678
Beginning Unrecorded Cash	1,596	0	0
Ending Unrecorded Cash	(2,084)	0	0
Advances In	100,000	0	0
Net Adjustments for Expenditure Accruals	(4,903)	(15,415)	(13,593)
Advances Out	(100,000)	0	0
Encumbrances	(250)	(250)	(250)
Budget Basis	<u>\$68,990</u>	<u>\$112,616</u>	<u>(\$7,024)</u>

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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 possession of an outside party. At year end, \$751,499 of the City's bank balance of \$1,342,050 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

## **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 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes were levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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The full tax rate for all City operations for the year ended December 31, 2016, was \$22.16 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2015 property tax receipts were based are as follows:

Real Property	\$130,528,599
Public Utility Personal Property	2,264,700
Total	\$132,793,299

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, 2016, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2016 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, 2016, 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	\$178,247
Gasoline Tax	143,156
Auto License	52,565
Local Government	27,073
Estate Tax	2,000
Fowler Township	800
Trumbull County Court	558
Total	\$404,399

**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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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, 2016.

***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, 2016, was as follows:

	Balance 12/31/15	Additions	Reductions	Balance 12/31/16
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	773,219	51,476	0	824,695
Vehicles	1,240,213	172,912	0	1,413,125
Infrastructure:				
Roads	4,402,953	164,222	(56,349)	4,510,826
Storm Sewers	1,971,728	97,065	0	2,068,793
Sidewalks	861,366	35,730	0	897,096
Curbs	829,353	0	0	829,353
Total capital assets being depreciated	11,123,504	521,405	(56,349)	11,588,560
Accumulated depreciation				
Buildings and Improvements	(656,011)	(17,900)	0	(673,911)
Furniture, Fixtures and Equipment	(579,192)	(45,419)	0	(624,611)
Vehicles	(989,367)	(74,727)	0	(1,064,094)
Infrastructure:				
Roads	(2,785,482)	(381,286)	56,349	(3,110,419)
Storm Sewers	(226,286)	(41,375)	0	(267,661)
Sidewalks	(80,976)	(22,428)	0	(103,404)
Curbs	(87,313)	(16,586)	0	(103,899)
Total accumulated depreciation	(5,404,627)	(599,721) *	56,349	(5,947,999)
Capital assets being depreciated, net	5,718,877	(78,316)	0	5,640,561
Governmental activities capital assets, net	\$5,736,453	(\$78,316)	\$0	\$5,658,137

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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	Balance 12/31/15	Additions	Reductions	Balance 12/31/16
Business type Activities:				
Capital assets not being depreciated				
Land	\$45,087	\$0	\$0	\$45,087
Capital assets being depreciated				
Furniture, Fixtures and Equipment	226,444	4,375	0	230,819
Vehicles	328,123	75,108	0	403,231
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	18,603,912	79,483	0	18,683,395
Accumulated depreciation				
Furniture, Fixtures and Equipment	(158,419)	(10,400)	0	(168,819)
Vehicles	(201,680)	(26,622)	0	(228,302)
Infrastructure:				
Water Lines	(2,980,684)	(172,843)	0	(3,153,527)
Sewer Lines	(4,904,621)	(167,217)	0	(5,071,838)
Total accumulated depreciation	(8,245,404)	(377,082)	0	(8,622,486)
Capital assets being depreciated, net	10,358,508	(297,599)	0	10,060,909
Business type Activities capital assets, net	\$10,403,595	(\$297,599)	\$0	\$10,105,996

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

General Government	\$68,758
Security of Persons and Property	85,967
Transportation	403,620
Basic Utility Services	41,376
Total	\$599,721

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2016

**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	2017
Southern Waterline - 2007	0%	328,900	2027
North High Street II Waterline - 2009	0%	482,800	2029
Willow Park Tank Replacement - 2009	0%	878,000	2031
North Wellfield Interconnect - 2011	0%	264,768	2031
Downtown Waterline Replacement - 2013	0%	417,800	2033
Downtown Waterline Replacement Phase II - 2014	0%	407,996	2035
Downtown Waterline Replacement Phase III - 2015	0%	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 2016 were as follows:

	Outstanding 12/31/2015	Additions	Reductions	Outstanding 12/31/2016	Due Within One Year
<b>Business Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
North High Street	\$35,269	\$0	\$17,634	\$17,635	\$17,635
Southern Waterline	189,117	0	16,445	172,672	16,445
North High Street II Waterline	337,960	0	24,140	313,820	24,140
Willow Park Tank Replacement	702,400	0	43,900	658,500	43,900
North Wellfield Interconnect	211,815	0	13,239	198,576	13,239
Downtown Waterline Replacement	376,020	0	20,890	355,130	20,890
Downtown Waterline Replacement Phase II	397,796	0	20,400	377,396	20,400
Downtown Waterline Replacement Phase II	292,839	32,920	8,144	317,615	16,288
South Mecca Waterline Replacement	0	15,525	0	15,525	0
<i>Total OPWC Loans</i>	<u>2,543,216</u>	<u>48,445</u>	<u>164,792</u>	<u>2,426,869</u>	<u>172,937</u>
<b>Ohio Water Development Authority Loan</b>					
Water Storage Tank	1,020,160	0	51,763	968,397	53,433
<b>Other Long-Term Liabilities</b>					
Net Pension Liability OPERS:					
Water	182,595	101,016	0	283,611	0
Sewer	197,812	85,798	0	283,610	0
<i>Total Net Pension Liability</i>	<u>380,407</u>	<u>186,814</u>	<u>0</u>	<u>567,221</u>	<u>0</u>
Compensated Absences	68,398	10,346	7,607	71,137	20,131
<i>Total Other Long-Term Liabilities</i>	<u>448,805</u>	<u>197,160</u>	<u>7,607</u>	<u>638,358</u>	<u>20,131</u>
<i>Total Business Type Activities</i>	<u>\$4,012,181</u>	<u>\$245,605</u>	<u>\$224,162</u>	<u>\$4,033,624</u>	<u>\$246,501</u>

**City of Cortland, Ohio**  
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	Outstanding 12/31/2015	Additions	Reductions	Outstanding 12/31/2016	Due Within One Year
<b>Governmental Type Activities</b>					
<b>Ohio Public Works Commission Loans</b>					
South Colonial Storm Sewer	\$279,197	\$0	\$22,638	\$256,559	\$15,092
<b>Net Pension Liability</b>					
OPERS	380,408	83,681	0	464,089	0
OP&F	2,948,968	585,811	0	3,534,779	0
<i>Total Net Pension Liability</i>	<u>3,329,376</u>	<u>669,492</u>	<u>0</u>	<u>3,998,868</u>	<u>0</u>
Compensated Absences	280,101	30,311	18,811	291,601	81,925
<i>Total Governmental Type Activities</i>	<u><u>\$3,888,674</u></u>	<u><u>\$699,803</u></u>	<u><u>\$41,449</u></u>	<u><u>\$4,547,028</u></u>	<u><u>\$97,017</u></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 \$13,686,737 at December 31, 2016. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016, 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, 2016, the City has received \$15,525 in proceeds.

*Business Type Activities*

Year	OPWC Loans		OWDA Loan	
	Principal		Principal	Interest
2017	\$172,937		\$53,433	\$30,564
2018	155,301		55,156	28,841
2019	155,301		56,936	27,062
2020	155,301		58,772	25,225
2021	155,302		60,668	23,330
2022-2026	776,506		333,988	86,001
2027-2031	654,222		349,444	28,547
2032-2036	186,474		0	0
Total	<u><u>\$2,411,344</u></u>		<u><u>\$968,397</u></u>	<u><u>\$249,570</u></u>

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

Year	OPWC Loans Principal
2017	\$15,092
2018	15,092
2019	15,092
2020	15,092
2021	15,092
2022-2026	75,460
2027-2031	75,457
2032-2033	30,182
Total	\$256,559

**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 2016, the City contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Trident Company	Commercial Automobile	\$1,000,000
	Public Officials Liability	2,000,000
Argonaut Insurance Group	Commercial Property	6,563,927
	Public Employee Dishonesty	25,000
	Forgery	2,500
	Theft, Disappearance and Destruction:	
	Inside the Premises	7,000
	Outside the Premises	7,000
Cincinnati Insurance Company	Bonds - Employees and Officials	25,000

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*  
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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.

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



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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> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> 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.

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

**City of Cortland, Ohio**  
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	State and Local
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$91,848 for 2016. Of this amount, \$8,147 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.

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

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

	Police	Firefighters
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2016 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 \$253,394 for 2016. Of this amount, \$20,474 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, 2015, 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, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. 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:

**City of Cortland, Ohio**  
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	<u>OPERS</u>	<u>OP&amp;F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0059540%	0.0549470%	
Prior Measurement Date	<u>0.0063080%</u>	<u>0.0569253%</u>	
Change in Proportionate Share	<u>-0.0003540%</u>	<u>-0.0019783%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,031,310	\$3,534,779	\$4,566,089
Pension Expense	\$131,605	\$465,461	\$597,066

At December 31, 2016, 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>			
Net difference between projected and actual earnings on pension plan investments	\$303,141	\$575,326	\$878,467
Changes in proportion and differences between City contributions and proportionate share of contributions	9,823	0	9,823
City contributions subsequent to the measurement date	<u>91,848</u>	<u>253,394</u>	<u>345,242</u>
Total Deferred Outflows of Resources	<u>\$404,812</u>	<u>\$828,720</u>	<u>\$1,233,532</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$19,927	\$9,926	\$29,853
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>37,992</u>	<u>82,223</u>	<u>120,215</u>
Total Deferred Inflows of Resources	<u>\$57,919</u>	<u>\$92,149</u>	<u>\$150,068</u>

\$345,242 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, 2017. 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:	OPERS	OP&F	Total
2017	\$53,303	\$133,744	\$187,047
2018	58,150	133,744	191,894
2019	74,993	133,744	208,737
2020	68,599	100,797	169,396
2021	0	(15,843)	(15,843)
Thereafter	0	(3,009)	(3,009)
Total	<u>\$255,045</u>	<u>\$483,177</u>	<u>\$738,222</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, 2015, 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 valuations are presented below.

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

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

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

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

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 2015 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 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the 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 County’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City’s proportionate share of the net pension liability	\$1,643,125	\$1,031,310	\$515,259

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
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***Changes between Measurement Date and Report Date***

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2015, is based on the results of an actuarial valuation date of January 1, 2015, 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.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

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, 2015, are summarized below:

**City of Cortland, Ohio**  
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Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	10 Year Expected Real Rate of Return**
Cash and Cash Equivalents	- %	0.00 %	0.00 %
Domestic Equity	16.00	4.47	7.80
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation Protected Securities*	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
<b>Total</b>	<b>120.00 %</b>		

Note: Assumptions are geometric.

\* levered 2x

\*\* Numbers include inflation

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	\$4,661,900	\$3,534,779	\$2,579,997



**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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**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.

OPERS maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

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 2016, 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.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The 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 third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

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, 2016, 2015 and 2014 was \$15,308, \$14,820 and \$13,810 respectively. For 2016, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

***Police and Fire Pension Fund***

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

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

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

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at [www.opf.org](http://www.opf.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required 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.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the amount of employer contributions allocated to the health care plan was 0.5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF for the years ended December 31, 2016, 2015 and 2014 were \$259,328, \$241,252 and \$243,816, respectively, of which \$5,934, \$5,522 and \$5,587, respectively, was allocated to the healthcare plan. For 2016, 97.68 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 2015 and 2014.

### **Note 15 - Jointly Governed Organizations**

#### ***Eastgate Regional Council of Governments***

The Eastgate Regional Council of Governments (ERCG) is a jointly governed organization that is committed to fostering cooperative regional efforts in the planning, programming and implementation of public sector activities. ERCG has forty-eight participating members. These include representatives from Trumbull County and Mahoning County, township trustees and officials from participating cities and villages. The operation of ERCG is controlled by a general policy board which consists of a representative from each participant. Each member's degree of control is limited to its representation on the board. Funding comes from each of the participants. For 2016, the City contributed \$9,950 to the Eastgate Regional Council of Governments. For more information contact John R. Getchey, executive director, at 5121 Mahoning Avenue, Youngstown, Ohio 44515.

#### ***Emergency Management Agency***

The Emergency Management Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County that was created to ensure that the State, and the citizens residing in it, are prepared to respond to an emergency or disaster and to lead mitigation efforts against the effect of future disasters. The eight members of the advisory board are appointed by the thirty-four member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hires and fires its own staff. Funding comes from each of the participants. For 2016, the City contributed \$2,984 to the Emergency Management Agency. For more information contact Linda Beil, director, at 1453 Youngstown Kingsville Road, Vienna, Ohio 44473.

### **Note 16 – Significant Commitments**

#### ***Encumbrances***

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

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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<i>Governmental Funds:</i>	
General	\$250
Police Levy	250
Fire Levy	250
<i>Business-Type Funds:</i>	
Water	250
Sewer	250
Total	<u><u>\$1,250</u></u>

**Note 17 – Change in Accounting Principle**

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” GASB Statement No. 77, “Tax Abatement Disclosures.” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the City’s financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the City’s financial statements.

GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into their 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**City of Cortland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2016*

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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 Three Years (1) \**

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0059540%	0.0063080%	0.0063080%
City's Proportionate Share of the Net Pension Liability	\$1,031,310	\$760,815	\$743,631
City's Covered Payroll	\$741,031	\$773,317	\$652,104
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	139.17%	98.38%	114.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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.



**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 Three Years (1) \**

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0549470%	0.0569253%	0.0569253%
City's Proportionate Share of the Net Pension Liability	\$3,534,779	\$2,948,968	\$2,772,441
City's Covered Payroll	\$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	320.07%	263.89%	276.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$91,848	\$88,924	\$92,798	\$84,773
Contributions in Relation to the Contractually Required Contribution	<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>
City Covered Payroll	\$765,400	\$741,031	\$773,317	\$652,104
Contributions as a Percentage of Covered Payroll	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.

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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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$253,394	\$235,730	\$238,229	\$181,676
Contributions in Relation to the Contractually Required Contribution	<u>(253,394)</u>	<u>(235,730)</u>	<u>(238,229)</u>	<u>(181,676)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,186,883	\$1,104,393	\$1,117,497	\$1,002,768
Contributions as a Percentage of Covered Payroll:	21.35%	21.34%	21.32%	18.12%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$153,278	\$161,665	\$151,513	\$149,066	\$148,089	\$140,590
<u>(153,278)</u>	<u>(161,665)</u>	<u>(151,513)</u>	<u>(149,066)</u>	<u>(148,089)</u>	<u>(140,590)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,012,026	\$1,076,167	\$1,007,856	\$991,580	\$987,131	\$940,551
15.15%	15.02%	15.03%	15.03%	15.00%	14.95%

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cortland, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2017.

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider finding 2016-002 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2016-001 and 2016-003 described in the accompanying schedule of findings to be significant deficiencies.

***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 2016-001.

***Entity'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 audit the City's responses 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.



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

December 11, 2017



**CITY OF CORTLAND  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016**

**1. ODOT Receipts and Expenditures**

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

<i>Finding Number</i>	2016-001
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Auditor of State Bulletins 2000-008 and 2002-004 provide guidance for local governments participating in on-behalf programs with other governments as to the application of Statement No. 24 of the Governmental Accounting Standards Board. In general, when a local government enters into an on-behalf program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf disbursements are made.

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

- Ohio Revised Code Section 5705.09(F) requires the legislative authority to establish any fund(s) necessary to meet the grant or project objectives.
- Ohio Revised Code Section 5705.42 states grants awarded by the State are deemed appropriated and in the process of collection.

In 2016, the City was the beneficiary of Ohio Department of Transportation (ODOT) monies that were paid directly to the vendor by ODOT for grants in the amount of \$31,934; the City did not establish a separate fund for the project nor post any receipts or expenditures for this activity. Additionally, the City did not update their budgeted revenues and expenditures in their accounting system for the grant monies. This resulted in the understatement of revenue and expenditure activity for the ODOT monies.

The City lacked adequate controls to prevent the above error from occurring. The City has not adjusted their financial statements for these errors.

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

**Official's Response:** The City will be more diligent in reporting State and Federal monies. In 2017, this has been done.

**2. Financial Information**

<i>Finding Number</i>	2016-002
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MATERIAL WEAKNESS

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

In 2016, the control procedures over financial information failed to recognize the following errors related to the preparation and review of the financial statements. The City has made the required adjustments to their financial statements for the following material errors:

- The City did not include an assigned fund balance for the 2017 General Fund appropriations exceeding budgeted receipts. The City's Certificate of Estimated Resources listed total resources of \$908,961.87 whereas appropriations were \$1,066,359.41. This understated the assigned fund balance in the amount of \$157,397.54.
- The City did not account for the utility services provided to customers but unbilled as of the end of the year. As a result, the City's accounts receivable balances were understated in the General, Water, and Sewer funds by \$14,222, \$66,793, and \$89,770, respectively.

The control procedures over the review of revenue transactions failed to recognize errors related to posting classification on the trial balances and accounting system. The following immaterial errors were not adjusted on the City's financial statements:

- The City received local levy motor vehicle license tax revenue in the amount of \$40,259. This amount was posted as Intergovernmental instead of Property and Other Local Tax Revenue in the Permissive Tax Fund. The City also recorded the related accrual as an Intergovernmental Receivable instead of Taxes Receivable in the amount of \$20,784.
- The City received State homestead and rollback and County cigarette tax in the amount \$2,801. This amount was posted as Property Tax instead of Intergovernmental Revenue in the General Fund.
- The City estimated the Property Tax Receivable amounts for the General, Police Levy, and Fire Levy Funds using the County Amended Certificate of Estimated Resources. The allocation between Tax and Homestead and Rollback (Intergovernmental) was determined by using amounts on the County Statement of Semiannual Apportionment of Taxes (SSAT). The City used the incorrect amount from the SSAT, which resulted in an overstatement of Property Tax Receivable and Deferred Inflows for the General, Police Levy, and Fire Levy Funds in the amount of \$6,911, \$11,986, and \$10,119 respectively.

**Finding Number – 2016-002  
 (Continued)**

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

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

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

**3. Interfund Advances**

<i>Finding Number</i>	2016-003
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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 advance from the Sewer Fund to the General Fund in the amount of \$100,000. The City made an advance from the Water Fund to the Fire Fund in the amount of \$100,000. The advances were repaid to the Sewer and Water Funds before year end.

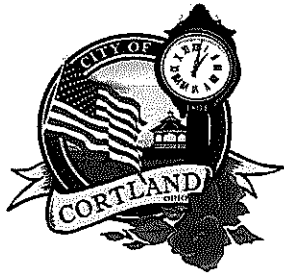
In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established. Water and Sewer fund revenue is designated for the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

The advance transactions have been eliminated on the financial statements and the advances were repaid in 2016.

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

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

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# City of Cortland

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Financial activity to recorded or reported correctly by the City	Not Corrected	We Plan on corrected this and with the new UAN software this should not be an issue
2015-001	Improper advances made by the City	Not Corrected	We will not be making advances from funds other than the General Fund

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# Dave Yost • Auditor of State

CITY OF CORTLAND

TRUMBULL COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 18, 2018