

CITY OF CORTLAND, NEW YORK

**Financial Statements as of
and for the Year Ended
December 31, 2013
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

CITY OF CORTLAND, NEW YORK

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SECTION A

**CITY OF CORTLAND, NEW YORK
BASIC FINANCIAL STATEMENTS**

INDEPENDENT AUDITOR'S REPORT

September 9, 2014

To the Mayor and Members of the
City Council of the City of Cortland, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2013, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 3-23 and 53-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards and the schedule of state transportation assistance expended are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Draft Part 43 of the New York Code of Rules and Regulations and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of state transportation assistance expended are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards and the schedule of state transportation assistance expended are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

CITY OF CORTLAND, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013

Our discussion and analysis of the City of Cortland's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2013. The results of the current year are discussed in comparison with the prior year, with an emphasis on the current year. The Management's Discussion and Analysis is only an introduction, please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,529,212 and is reported as net position. Unrestricted net position, the portion of net position which may be used to meet the government's ongoing obligations to citizens and creditors, was a deficit of \$(18,283,243) at December 31, 2013.
- The City's annual required contribution (ARC) for other postemployment benefits (OPEB) for 2013 was \$5,655,955 and the net annual OPEB cost was \$5,358,563. The City paid \$1,577,272 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Position of \$17,581,416 for the remaining portion of the unfunded other postemployment benefit obligation.
- During the year, the City had expenses that exceeded revenues of \$2,240,211, compared to last year, when the City had expenses that exceeded revenues of \$1,992,470.
- General Fund revenues of \$17,704,820, supplemented by transfers into the General Fund of \$918,274, exceeded expenditures of \$18,168,281 in 2013, increased fund balance by \$454,813 for the year ended December 31, 2013.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Position and the Statement of Activities and Change in Net Position provide information about the City as a whole and present a longer-term view of the City's finances. The governmental fund financial statements, however, tell how these services were financed in the short term, as well as what remains for future spending. Governmental fund financial statements also report the City's operations in more detail than the Government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements, the annual report contains other information in the form of budgetary comparison schedules for the General and Major Special Revenue Funds with a legally adopted budget.

USING THIS ANNUAL REPORT (Continued)

Reporting the City as a Whole

The analysis of the City as a whole begins with the Government-wide statements. The Statement of Net Position and the Statement of Activities and Change in Net Position report information about the City as a whole and about its activities in a way that helps answer the question of whether the City, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the City's net position and changes in them. One can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's streets, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities and Change in Net Position, all of the City's activities, which are governmental in nature, are reported in one column, including public safety, transportation, home and community services, culture and recreation, and general administration. Property and sales taxes, and state and federal grants finance most of these activities.

Reporting the City's Most Significant Funds

Governmental Fund Financial Statements

The Governmental Fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law. However, management establishes many other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes and grants. The City's two kinds of funds - Governmental and Fiduciary - use different accounting approaches.

Governmental Funds: All of the City's services are reported in the Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between Governmental Activities (reported in the Government-wide statements) and Governmental Funds is explained in a reconciliation following the Governmental Fund financial statements.

The City as Trustee: The City is the trustee, or fiduciary, for other assets that are held on behalf of others. All of the City's Fiduciary Activities are reported in a separate Statement of Fiduciary Net Position on page 30. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE CITY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$2,529,212 at the close of the most recent year. Compared to the prior year, this is a decrease of \$2,240,211 or 47%. The principal causes for this decrease is the City's increasing liability for its OPEB (\$3,781,291) and compensated absences obligations (\$272,798).

THE CITY AS A WHOLE (Continued)

Current and other assets account for 37% of the City's total assets. At December 31, 2013 this category amounted to \$16,557,824 which increased \$1,038,634, or 6.7% from the prior year. An increase of \$1,582,937, 22.2%, in the City's aggregate cash position to \$8,713,371 at December 31, 2013 from \$7,130,434 at December 31, 2012 accounts for the increase in total assets. The increase in the City's cash position is primarily attributed to two new Bond Anticipation Note (BAN) issuances of \$1,500,000 in 2013.

The analysis below focuses on the net position (Figure 1), and changes in net position (Figure 2), of the City's Governmental Activities.

**Figure 1
Net Position**

	Governmental Activities		Percent Change
	2013	2012	2013 - 2012
Current and other assets	\$ 16,557,824	\$ 15,519,190	6.7%
Capital assets, net	<u>28,137,000</u>	<u>27,351,323</u>	2.9%
Total assets	<u>44,694,824</u>	<u>42,870,513</u>	4.3%
Current	6,669,717	4,718,882	41.3%
Long-term liabilities - due in one year	3,318,508	3,360,074	-1.2%
Long-term liabilities - due in more than one year	<u>32,177,387</u>	<u>30,022,134</u>	7.2%
Total liabilities	<u>42,165,612</u>	<u>38,101,090</u>	10.7%
Net investment in capital assets	16,594,005	13,447,926	23.4%
Restricted	4,218,450	4,652,949	-12.3%
Unrestricted	<u>(18,283,243)</u>	<u>(13,331,452)</u>	-93.0%
Total net position	<u>\$ 2,529,212</u>	<u>\$ 4,769,423</u>	-47.0%

Total liabilities increased \$4,064,522, or 10.7%, over the prior year. The City issued two new BANs which increased current liabilities by \$1,500,000 to finance wastewater treatment plant improvements and road improvements. There was also an increase in the City's other post-employment benefit obligations of \$3,781,291. This was offset by a reduction in bonds payable of \$1,935,000 due to annual payments.

By far the largest portion of the City's net position, \$16,594,005, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment, less any related debt used to acquire those assets that is still outstanding). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. The City's investment in capital assets increased \$3,146,079, or 23.4% from the prior year. This increase is primarily due to the City's continuing strategy to pay down its outstanding debt and fund purchases of short-lived assets from operating revenue instead of incurring additional debt. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

THE CITY AS A WHOLE (Continued)

An additional portion of the City's net position, \$4,218,450, represents resources that are restricted by General Municipal Law. The remaining balance is a deficit primarily attributable to the City's unfunded actuarial liability for post-employment health care obligations and therefore should not be considered available to meet the City's ongoing obligations to citizens and creditors.

Figure 2 presents the results of the City's operating activities.

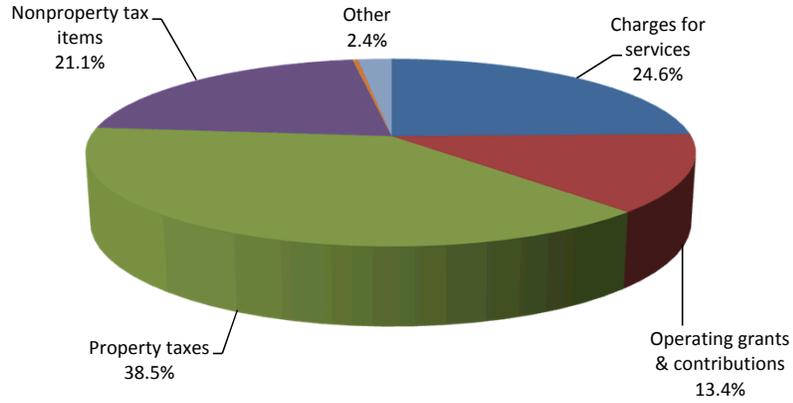
Figure 2
Changes in Net Position

	Governmental Activities		Percent Change 2013 - 2012
	2013	2012	
REVENUES			
Program revenues:			
Charges for services	\$ 6,170,312	\$ 6,094,368	1.2%
Operating grants	3,357,262	3,067,326	9.5%
Capital grants	-	396,407	-100.0%
General revenues:			
Property taxes and tax items	9,667,071	9,345,540	3.4%
Nonproperty taxes	5,273,112	5,342,198	-1.3%
Use of money and property	85,531	46,537	83.8%
Other general revenues	<u>529,320</u>	<u>392,278</u>	34.9%
Total revenues	<u>25,082,608</u>	<u>24,684,654</u>	1.6%
EXPENSES			
General government	1,823,656	2,169,583	-15.9%
Public safety	14,267,843	14,143,295	0.9 %
Transportation	3,077,817	2,472,351	24.5%
Economic assistance and opportunity	414,131	158,099	161.9%
Culture and recreation	1,759,995	1,759,140	0.0%
Home and community services	5,479,794	5,275,255	3.9%
Interest on long-term debt	<u>499,583</u>	<u>629,401</u>	-20.6%
Total expenses	<u>27,322,819</u>	<u>26,607,124</u>	2.7%
Deficiency of revenues over expenses	<u>\$ (2,240,211)</u>	<u>\$ (1,922,470)</u>	-16.5%

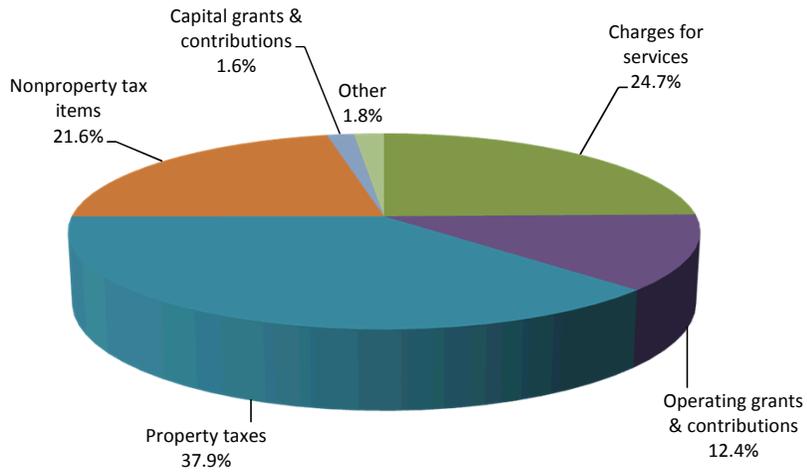
Revenues increased by \$397,954, or 1.6%, due primarily to an increase of operating grants and other general revenues. Expenses increased \$715,695, or 2.7%, primarily due to increases in pension contributions and increased health care costs for current and retired employees and the derivative effect that increase has of the annual net increase in the provision for the City's OPEB obligation for health care.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2013 and 2012.

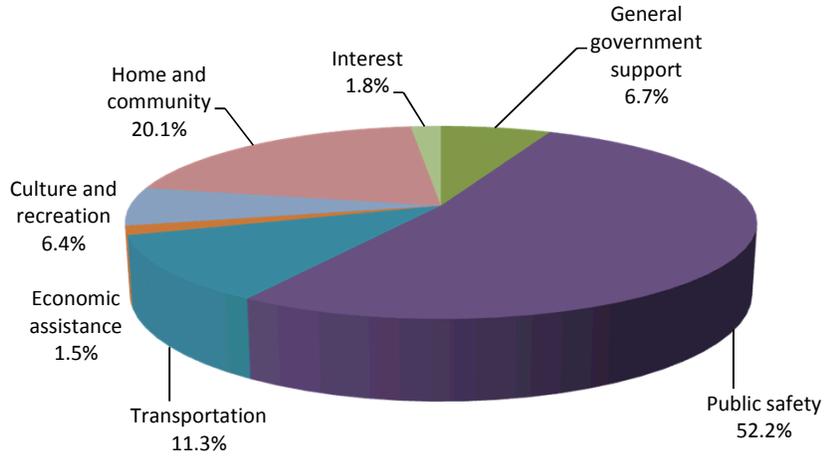
2013 Revenues - Governmental Activities



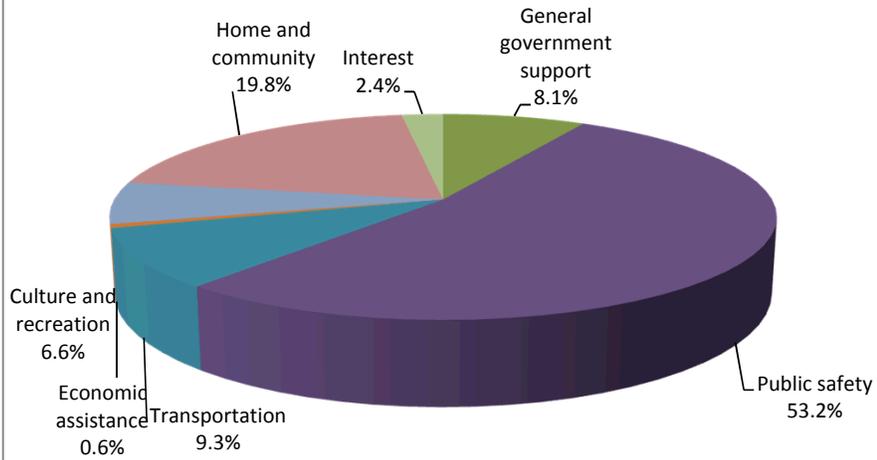
2012 Revenues - Governmental Activities



2013 Expenses - Governmental Activities



2012 Expenses - Governmental Activities



THE CITY'S FUNDS

As the City completed the year, its Governmental Funds, as presented in the balance sheet on page 26, reported a combined fund balance of \$7,586,296 which is \$953,052 below last year's total of \$8,539,348. Figure 7 shows the fund balances at year end for the City's major funds.

**Figure 7
Governmental Funds
Fund Balance at Year End**

	<u>2013</u>	<u>2012</u>	<u>Percent Change 2013 - 2012</u>
Major funds:			
General fund	\$ 3,698,406	\$ 3,243,593	14%
Special revenue funds -			
Sewer fund	2,615,840	2,375,357	10.1%
Special grant fund	792,167	1,166,350	-32.1%
Water fund	1,092,440	877,293	24.5%
Capital projects fund	(883,583)	761,069	-216.1%
Non-major funds	<u>271,026</u>	<u>115,686</u>	134.3%
Total governmental funds	<u>\$ 7,586,296</u>	<u>\$ 8,539,348</u>	-11.2%

General Fund Budgetary Highlights

Over the course of the year, the Common Council, as well as the management of the City, revised the City budget several times. These are typical budget amendments and consisted of transfers between functions, encumbrances from the prior fiscal year, unanticipated revenues and the acceptance of grant awards.

One significant budget variance was in real property taxes, which showed a favorable variance of \$209,025. This was mainly due to aggressive action to pursue delinquent property taxes.

The actual charges to appropriations (expenditures), in total, were less than the final budget amounts by \$570,419. The most significant budget variances were expenditures in public safety at \$405,105 favorable. Public safety expenditures were lower than budgeted due to cost containment efforts within the Police Department.

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES

Capital Assets

At the end of December 31, 2013, the City had \$28,137,000 invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net increase of \$785,677 over 2012. The increase in net capital assets is comprised of additions of \$3,041,170, depreciation expense of \$1,717,354, and a loss on disposals of \$538,139.

Figure 8
Capital Assets, at Historical Cost, net

	Governmental Activities		Percent Change 2013 - 2012
	2013	2012	
Land	\$ 1,487,500	\$ 1,487,500	0%
Buildings and improvements, net	13,358,612	13,334,487	0.2%
Machinery and equipment, net	6,851,312	6,598,865	3.8%
Infrastructure, net	<u>6,439,576</u>	<u>5,930,471</u>	8.6%
Total	<u>\$ 28,137,000</u>	<u>\$ 27,351,323</u>	2.9%

Debt Administration

Debt (notes and bonds), a liability in the City's Governmental Activities, decreased by \$1,940,402, bringing the total debt outstanding to \$11,962,995 as of December 31, 2013, as shown in Figure 9. Of the amount of bonds outstanding, \$9,435,000 is subject to the constitutional debt limit and represented 26% of the City's statutory debt limit. The City's bond rating is currently A+ from Standard & Poor's.

Figure 9
Outstanding Debt at Year End

	Governmental Activities		Percent Change 2013 - 2012
	2013	2012	
Capital notes	\$ 22,995	\$ 28,397	-19%
Serial bonds	<u>11,940,000</u>	<u>13,875,000</u>	-13.9%
Total	<u>\$ 11,962,995</u>	<u>\$ 13,903,397</u>	-14%

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)

Noncurrent Liabilities

In 2013, the City's OPEB liability increased \$3,781,291. The City is required to recognize, according to a prescribed actuarial calculation, its obligations for OPEB as they are incurred. In the case of the City, this obligation consists of health benefits promised to its current and future retirees. Based on a study of the City's numerous benefit packages and the effected population, actuaries have determined the value of the benefits earned in prior years, as well as the value earned through December 31, 2013.

The City's annual OPEB cost is calculated based on the annual actuarially determined required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of thirty years. The City's ARC for the year ended December 31, 2013 was calculated to be \$5,655,955 compared to \$5,314,568 at December 31, 2012. The City contributed \$1,577,272 on behalf of its retirees in 2013, resulting in a noncurrent liability of \$17,581,416 at December 31, 2013.

Additionally, the City's liability for compensated absences increased \$272,798 to \$5,951,484 as of December 31, 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic challenges facing the City's budget in 2014 and years after are rooted in its demographics and its continuing transition from a manufacturing economy to one supported by a mix of government, higher education, services and light non-manufacturing private sector employers. Of particular importance, and addressed individually herein, are the age characteristics of City's population, its housing stock, employment base and poverty rates.

The City, as the County seat and sole city, has long been the center of government, culture, and commerce for the area. Within the last 20 years, however, more and more commercial and industrial activity is migrating to the surrounding Town of Cortlandville. Most of the rest of Cortland County is predominantly rural with several pastoral villages and hamlets. Cortland is located along Interstate 81, in the central part of New York State between the cities of Binghamton to the south, and Syracuse to the north. It is often referred to as the geographic heart of the State of New York due to its central location.

It is not surprising that the City is home to a high percentage of the Cortland County population. This is true for a number of reasons:

- The City's Central Business District is "downtown" for much of the County and, as mentioned, is the seat of both County and City government.
- The County's only hospital, Cortland Regional Medical Center, is located in the City, as are most major social service providers.
- Most of Cortland County's recreational parklands are in the City.
- The majority of the County's lower income housing units are located in the City, mostly due to the availability of goods and services. The greatest number of the County's subsidized housing units, over 400, are in Cortland, not including the 220 families on the Section 8 voucher program that live in the City.
- Many of the County's largest employers, including the hospital, SUNY Cortland, and Cortland Enlarged City School District, are still located within City boundaries.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

- For many residents, the attraction of living in the City is the location of jobs and services, especially social services, in a centralized location, easily accessible by foot.
- There are many commercial and retail businesses in the City that provide essential services to residents, both in neighborhoods and in the downtown. There is a full-time police department and a combination paid/volunteer fire department, as well as the Cortland Enlarged City School District, which includes the Junior/Senior High School, and four of the district's five elementary schools.

While many residents enjoy living in Cortland, many are dissatisfied with escalating property taxes, the highest in the County. The challenge for the City becomes how to generate sufficient revenues/tax base without cutting essential services and without significantly changing the character of the City. This is particularly difficult in the City since approximately 38% of its assessment is exempt from property taxes. The City is currently weathering unprecedented budget difficulties, with staff and service cuts needed to keep tax increases to a minimum.

One of the biggest challenges facing the City today is the economic decline in Cortland County and the upstate New York region. This phenomenon has resulted in an overall decline in the City's population and economic standing. The City's past over-reliance on a manufacturing based economy, combined with the struggle to create new jobs, and a nationwide recession, have resulted in the City recently experiencing unprecedented levels of unemployment. Members of the working class have had to vacate the area for job opportunities, leaving behind an aging population, with a concurrent decrease in younger persons.

Cortland is virtually built out, in that nearly all developable properties within the City boundaries have been developed. Therefore, few large-scale developments have been built in recent years. The Hickory Park area, developed over time since the 1970's, has been the largest development, and consumed the largest area of previously undeveloped property in the City. Most development in recent years has been on in-fill sites, through demolition and reconstruction, or adaptive reuse of existing businesses. This complicates the development process and increases costs.

The Town of Cortlandville, most notably the area southwest of the City, has been a hotbed of commercial development in the County, partly due to the lack of large tracts of land in the City that can accommodate "big box" development. The growth of retail outside the City has come at the expense of retail development within the City limits, although the City does benefit from sales tax generated throughout the County.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

In order to position itself for economic opportunities, the City has undertaken a number of both major and smaller projects to increase its desirability as a place to live and work. For example, over the past two decades, the City has made significant inroads in improving and expanding its water and sewer infrastructure, and roadways, rehabbing its housing stock, and improving its parks. Most of the City includes connecting sidewalks, making it a walkable community. The downtown, despite ongoing difficulties, is experiencing a renewed sense of vitality due to concerted efforts by the City and its partners. Today the downtown is, arguably, the most vital neighborhood in the City. SUNY Cortland continues to grow in stature and size, as does Cortland Regional Medical Center. Abandoned industrial sites and brownfields are being readied for redevelopment, such as the Build-Now NY designated Noss Technology Park. With the aid of a grant from the Economic Regional Council the City has entered into a contract with the New York Susquehanna and Western Railway Corporation to develop a loading facility on a former EPA Superfund site. The City, with financial assistance from the Environmental Facility Corporation, has created a public/private partnership with the City's largest commercial employer to own and operate a waste water pre-treatment facility. In corroboration with the Town of Cortlandville and the Cortland County BDC/IDA an incentive program was developed to successfully recruit Byrne Dairy to locate their new yogurt and specialty cheese production facility in the County. The City and surrounding areas are located over a federally designated sole source aquifer, which supplies the City and other communities with high volumes of good quality water. In addition, the City has undertaken, with financial assistance provided by EFC and NYSERDA, a \$13.5 million reconstruction of its Waste Water Treatment plant intended in part to efficiently treat waste unique to the Arji-Dairy industry. Progress has been slow but there is evidence to suggest that a brighter future is in store.

Demographics

The City's 3.9 square miles accounts for only .8% of the County's total land area, however, almost 39% of the County's population (49,453) resides in the City (19,271). A reapportionment study done by the Southern Tier East Regional Planning Development Board (STERPDB), using 2000 Census data, cites the City as the most densely populated municipality in the eight county Southern Tier Region, which includes Tompkins and Broome Counties. This statistic reflects to some degree the presence of the State University College at Cortland in the City, which has increased significantly in size from 1,300 students in 1949 to a current enrollment of 7,098 students.

POPULATION TREND 1970-2012

	1970	1980	1990	2000	2010	2012
Cortland County	45,894	48,820	48,963	48,599	49,336	49,453
City of Cortland	19,621	20,138	19,801	18,740	19,204	19,271

The City's population has increased 531 (2.8%) from 2000 and 67 residents from 2012. The total 2012 population of the County has increased 854 (1.8%) over 2000. In comparison, the State's population increased 2.2% from 2000 to 2012 while the Nation's population increased 9.8% during the same time period. Since 1980 the City has lost slightly less than 7% of its population. The County's 2015 population is projected to decline to 49,128.

Changes in the age structure of the population, whether due to births, deaths, and/or net migration, have important implications for the City's tax base, service structure and development. The City's median age has decreased from 27.8 years in 2000 to 26.9 years in 2012. The City's median age is significantly lower than the County' 35.8 years (2012) reflecting the impact of SUNY Cortland's student population. The State's median age in 2012 was 38.

CITY'S MEDIAN AGE

1990	2000	2010	2012
26.1	27.8	25.9	26.9

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Demographics (Continued)

In contrast to the surrounding towns in Cortland County the City's 2012 Median Age is significantly lower reflecting the need to render services unique to a younger population such as recreation, police and code enforcement for higher density housing.

TOWN	MEDIAN AGE
Cincinnatus	41.5
Cortlandville	41.6
Cuyler	37.8
Freetown	40.3
Harford	39.3
Lapeer	40.5
Marathon	40.8
Preble	45.5
Scott	40.8
Solon	42.6
Taylor	40.7
Truxton	41.7
Virgil	41.5
Willet	37.2

Of particular significance are the changes from 1990 to 2012 is the composition of the City's age brackets (shown on the following page). While the aggregate percentage of residents under the age of 24 and over the age of 65 has remained relatively stable there has been movements within the categories comprising the 25 to 64 year old brackets. Since 1990 residents between 25 and 64 year of age have comprised approximately 41% of the City total population. However, within this age bracket there has been shift downward in the number residents in the 25 to 44 age bracket with an offsetting increase in the 45 to 65 bracket. This indicates that aging in place is occurring within the City opposed to migrations in or out of this segment of the population. Because there does not appear to be a migration the City can expect the in place aging process to soon increase the number of residents moving into the 65 to 79 age bracket

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Demographics (Continued)

AGE BRACKET	1990	2000	2010	2012
Under 5	6.3%	5.3%	5.2%	5.1%
6 - 19	19.3%	23.0%	22.7%	22.0%
20-24	28.8%	18.3%	20.5%	20.4%
25-44	25.5%	23.7%	21.0%	20.9%
45-64	12.9%	16.7%	19.8%	20.8%
65-79	3.5%	7.5%	6.6%	6.6%
Over 80	3.7%	5.5%	4.2%	4.2%

The City's population is relatively homogeneous in relation to race. In 2012, 92.4% of the City population is white while 90.8% of the County-wide population is also white. In both the City and the County, Hispanics comprise the largest segment of minorities, 3.7% and 4.9% respectfully.

Housing stock

There are 7,647 housing units, including student rentals, within the City of which 6,632 (86.7%) are occupied. County-wide there are 20,524 housing units with an 86.8% occupancy rate. 43.8% of the City's housing units are owner occupied compared to 66.2% county-wide, a State-wide average of 48.07% and a National average of 57.6%. Of the 1,187 New York State municipal housing markets accounted for in the 2010 census, the City of Cortland ranks 1,156 in the percentage of owner occupied housing units.

STATUS OF VACANT HOUSING UNITS

	CITY		COUNTY-WIDE	
TOTAL VACANT UNITS	1,015	13.5%	2,715	13.2%
For Rent	270	3.5%	471	2.3%
Rented, not Occupied	195	2.6%	261	1.3%
For Sale Only	40	.5%	92	.4%
Sold, not Occupied	-	-	26	.1%
For Seasonal, Recreation, Occasional Use	7	.1%	754	3.7%
Other Vacant	503	6.6%	1,111	5.4%

The age of the City's housing stock is problematic with the median age of the stock dating back to 1939 compared to a State-wide median of 1954 and a National median of 1975. 77.7% of the City's housing units were built before 1960.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Housing stock (Continued)

DISTRIBUTION OF YEAR BUILT FOR HOUSING UNITS

	CITY		COUNTY-WIDE	
Built 2005 or later	7	.1%	29	.1%
Built 2000 to 2004	30	.4%	950	4.6%
Built 1990 to 1999	212	2.8%	1,687	8.2%
Built 1980 to 1989	351	4.5%	1,717	8.4%
Built 1970 to 1979	495	6.5%	2,506	12.2%
Built 1960 to 1969	614	8.0%	1,904	9.3%
Built 1959 or earlier	5,938	77.7%	11,731	57.2%

Even though 56% of the City's housing stock is rental housing, compared to 34% county-wide the inventory of quality rental housing is low. A large percentage of rental housing within the City is marketed to college students, Young professionals, empty-nesters and others who may prefer the flexibility of renting have limited options. In 2013 the City, County and School District collaborated to enact property tax abatements for market-rate non-student residential development of second, third and fourth floors in the Downtown Business District. The City is currently experiencing some modest residential redevelopment in its older downtown buildings and has adopted an aggressive tax abatement program to foster residential development.

Health and human service agencies express concern about the lack of appropriate housing for seniors and people with disabilities. Many of the city's seniors live in older, multi-story homes and senior housing complexes. The homes are old, energy inefficient, require expensive maintenance and repairs and are ill designed for the age of their residents. "Aging in place" presents unique challenges as older housing units rarely incorporate accessible features and thus create difficulties for residents with increasingly limited mobility. Lack of neighborhood grocery stores and public transportation make it extremely challenging for the City's senior residents to fulfill basic needs for healthy nutrition and medications.

In addition, subsidized housing for seniors, people with low incomes and people with disabilities is in short supply, with nearly 100% occupancy rates and multi-year waiting lists for professionally managed facilities. Within the City there are 120 low income tax credit housing units and 158 Section 8 assisted units to serve 2,104 City residents over the age of 65.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Employment base

The Industrial Revolution had a major impact on the economy of Cortland County and the growing City. The hub of industry in Cortland County was centered in the City, and many homegrown industries sprang up in the 19th century. These were supported by the railroad, which provided easy transport of goods to all areas of the country. As the 20th century dawned, and mass production manufacturing took a stronghold, there was less of a reliance on local farms as the County's economic base. Post World War II, the rising popularity of the automobile resulted in many residents seeking employment opportunities in the industries in and adjacent to the City. Manufacturing companies such as Smith Corona Marchant (SCM), a manufacturer of portable typewriters and employer of 7,000 persons; Brockway Motors, producers of the famed Husky truck; Wickwire Brothers, inventors of wire screen and employer of 1,500 persons, and many other manufacturing concerns too numerous to mention, provided ample employment opportunities for City and County residents. During this period, the City grew in population and size, with neighborhoods developing near factories. The downtown continued to grow as the center of commerce and government, and many fine homes were developed adjacent to downtown. The City thrived.

Unfortunately, industrial retrenchment in Cortland County began in the late 1970's and continues to plague the Cortland County community, and particularly the City, even today. As a result, the City has suffered greatly as local companies have closed, relocated, or consolidated out of the area. Early industries that closed or moved included Wickwire's, Brockway Motors, Wilson Sporting Goods, Durkee Bakery, Crescent Corset, and Champion Sheet Metal, to name only a few. Although closings such as Wickwire's and Brockway Motors initially shocked the community, these job losses were negated by the startup of a Rubbermaid Corporation plant in the City, and, at about the same time, the expansion of Buckbee Mears, also in the City. As Smith Corona began a long series of layoffs, Buckbee Mears and other manufacturing entities were there to take up some of the slack. Eventually Buckbee Mears employed 1,100 persons in 1997. It should be noted, however, that the County never recaptured all of its former manufacturing jobs.

A second wave of industrial retrenchment occurred when Rubbermaid closed its plant in 1997 and eliminated 500 jobs; Smith Corona, at one time the region's largest employer, finally left the area in early 2001, ending a 100-year presence in the community; and Buckbee Mears closed its doors in 2005.

During the early 2000's, companies also left the City for facilities in nearby Cortlandville, including Essex Steel and Marvin Windows. Although the jobs remained local, the City's tax base was lost. The same also happened to the retail market, as big box stores in Cortlandville supplanted smaller, local businesses in the downtown.

Industrial job losses have been offset with lower paying service sector jobs, many with fewer fringe benefits. Cortland's manufacturing employment rate has been cut in half: from 32.8% in 1970, to 27.1% in 1980, to 21% in 1990, to only 14.8% in 2000. The New York Department of Labor indicates that Cortland County had 6,000 manufacturing jobs in 1990. By 2000, the number of manufacturing jobs was only 3,400, a 43% drop in ten years. Despite these job losses, manufacturing, at 14.8%, accounts for one of the largest percentage of jobs for City residents, trailing only education, health and social services combined at 32.2%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

EMPLOYMENT BY INDUSTRY 2012

EMPLOYED POPULATION > 16 YEARS OLD	CITY		COUNTY-WIDE	
TOTAL EMPLOYMENT	8,144		22,769	
Agriculture, forestry, fishing, mining	157	1.9%	735	3.2%
Construction	208	2.6%	1,379	6.1%
Manufacturing	681	8.4%	2,605	11.4%
Wholesale Trade	99	1.2%	443	1.9%
Retail Trade	1,162	14.2%	2,988	13.2%
Transportation, warehousing and utilities	191	2.3%	797	3.5%
Information	46	.6%	181	.8%
Finance, insurance and real estate	286	3.5%	706	3.1%
Prof., scientific, mgmt., admin., and waste management	747	9.2%	1,591	7.0%
Education, health care and social assistance	2,938	36.1%	7,325	32.2%
Arts, entertainment, accommodation and food	925	11.4%	1,945	8.5%
Other services	458	5.6%	1,025	4.5%
Public administration	246	3.0%	1,049	4.6%

With the local and national economy recently mired in a deep recession, Cortland companies have experienced significant closings and layoffs. Unemployment rates for the first three months of 2009 were the highest in the past 20 years. State unemployment figures showed Cortland County registering an unemployment rate of 10.3% for January, the 4th highest in New York State. February registered at 10.9%; and March was 10.8%. A year later, rates had fallen to 8.4%, but remain higher than the State as a whole. All of these aforementioned job losses and the resultant economic distress have had severe ramifications for all areas in the County.

Currently, the City's largest employers are not industries. SUNY Cortland (1,300 employees), Cortland County (710), Cortland Regional Medical Center (700), and the Cortland Enlarged City School District (500) are the largest employers. The largest private employers in the City include Marietta Corporation (850), and Cooper Tools (114). The top four employers in the County are located in the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Income and poverty

The City has a large concentration of lower income persons, and the number of poor in the community has risen over the years. As of 2012, 23.6% of all City residents and 11.6% of City families live in poverty. These poverty rates compare to 16.0% of County-wide residents living in poverty and 8.0% of families. Over 51% are considered "low-to-moderate" income according to the U.S. Department of Housing and Urban Development. 42.7% of the City's school age children receive free or reduced meals.

Per capita income within the City is \$18,990 compared to per capita income in Town of Cortlandville (\$25,737) and the Village of Homer, (\$30,520). The county-wide per capita income is \$22,788. Median household income within the City is \$37,429 compared to household incomes in the Town of Cortlandville of \$54,644, in the Village of Homer, \$56,071 and County-wide \$47,497.

INCOME RANGE	CITY		COUNTY-WIDE	
TOTAL HOUSEHOLDS	6,632		17,809	
Less than \$10,000	874	13.2%	1,480	8.3%
\$10,000 to \$14,999	648	9.7%	1,072	6.0%
\$15,000 to \$24,999	919	13.9%	1,914	10.7%
\$25,000 to \$34,999	738	11.1%	1,887	10.6%
\$35,000 to \$49,999	1,082	16.3%	2,993	16.8%
\$50,000 to \$74,999	1,138	17.2%	3,489	19.6%
\$75,000 to \$99,999	541	8.2%	2,196	12.3%
\$100,000 to \$149,999	433	6.5%	1,784	10.0%
\$150,000 to \$199,000	161	2.4%	741	4.2%
\$200,000 or more	98	1.5%	253	1.4%

The current fiscal recession has sharpened the focus on the related issues of income and poverty for both residents within the City and the County-wide populace. Both median household incomes and per capita incomes in the City were stagnant between 2010 and 2011 but showed improvement in 2012 as employment opportunities and wage levels slightly improved.

MEDIAN HOUSEHOLD INCOME

2010	2011	2012
\$34,368	\$35,011	\$37,429
	Percentage Increase 1.8%	Percentage Increase 8.7%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Income and poverty (Continued)

PER CAPITA INCOME

2010	2011	2012
\$18,182	\$18,229	\$18,990
	Percentage Increase .25%	Percentage Increase 4.1%

In comparison to towns in Cortland County, the 2012 median income in the City is from 12% (\$4,220) to 41% (\$15,283) lower.

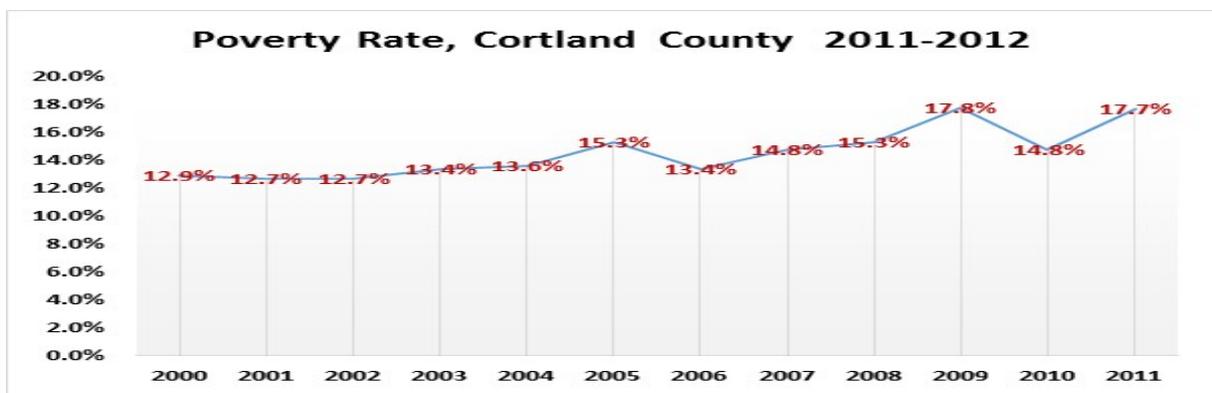
TOWN	MEDIAN HOUSEHOLD INCOME
Cincinnatus	\$41,563
Cortlandville	\$52,196
Cuyler	\$40,313
Freetown	\$40,521
Harford	\$46,000
Lapeer	\$45,956
Marathon	\$49,042
Preble	\$51,375
Scott	\$53,068
Solon	\$44,338
Taylor	\$51,375
Truxton	\$49,565
Virgil	\$59,375
Willet	\$45,268

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Income and poverty (Continued)

Poverty is an acute problem both within the City and the County. In 2012, the poverty rate among all City residents is 23.6% and 15.0% among County residents. 11.8% of families within the City are living in poverty as are 8.0% of County families. Poverty among City families becomes more striking when the presence of minor children are factored into the equation as 19.1% of families residing in the City with minor children are below property levels. However when the focus is solely upon female households with minor children where no husbands are present the household living in poverty is 78.7%.

By all measures poverty among individuals, families and children is trending upwards in Cortland County despite the slight improvement in the County's unemployment rate since the start of the great recession in 2008.



The growth in child poverty is most notably illustrated in that from 2005 to 2011 the percentage of children receiving free or reduced-price lunches in the Cortland City School District has increased from 41% to 51% in 2013.

CHILDREN RECEIVING FREE OR REDUCED-PRICE SCHOOL LUNCH

2010	2011	2012	2013
45%	46%	47%	51%

Other indications of the rise in poverty among children ages 0 to 17 are the 19% increase from 2007 to 2012 in the number of children receiving public assistance and the 52% increase over the same time period of children receiving supplemental nutrition assistance.

CHILDREN AND YOUTH RECEIVING PUBLIC ASSISTANCE, AGES 0-17

2007	2008	2009	2010	2011	2012
459	437	565	519	586	543

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

Income and poverty (Continued)

CHILDREN AND YOUTH RECEIVING SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

2007	2008	2009	2010	2011	2012
1,705	1,973	2,438	2,562	2,529	2,579

CHILDREN AND YOUTH RECEIVING SUPPLEMENTAL SOCIAL SECURITY INCOME

2007	2008	2009	2010	2011	2012
197	191	193	195	203	215

The poverty rate (23.3%) within the City is between 2.5% to 19.90% higher than the towns in Cortland County.

TOWN	POVERTY RATE
Cincinnatus	16.2%
Cortlandville	12.9%
Cuyler	16.3%
Freetown	20.8%
Harford	14.0%
Lapeer	7.0%
Marathon	9.0%
Preble	15.1%
Scott	9.0%
Solon	11.6%
Taylor	16.9%
Truxton	6.2%
Virgil	3.4%
Willet	8.7%

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about the report or need any additional financial information, contact the Assistant Director of Administration and Finance, City Hall, 25 Court Street, Cortland, NY 13045.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents - unrestricted	\$ 6,634,264
Cash and cash equivalents - restricted	2,079,107
Other receivables, net	1,516,192
Loans receivable	2,686,309
Due from Federal and State governments	1,003,641
Taxes receivable, net	2,590,989
Due from other funds, net	47,322
Capital assets, net	<u>28,137,000</u>
Total assets	<u>44,694,824</u>
LIABILITIES	
Accounts payable	700,675
Accrued liabilities	1,737,095
Unearned revenue	2,731,399
Due to other governments	548
Bond anticipation notes payable	1,500,000
Long-term liabilities -	
Due within one year	3,318,508
Due in more than one year	<u>32,177,387</u>
Total liabilities	<u>42,165,612</u>
NET POSITION	
Net investment in capital assets	16,594,005
Restricted	4,218,450
Unrestricted	<u>(18,283,243)</u>
Total net position	<u>\$ 2,529,212</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 1,823,656	\$ 500,652	\$ 2,211,647	\$ -	\$ 888,643
Public safety	14,267,843	75,312	397,445	-	(13,795,086)
Transportation	3,077,817	103,968	282,583	-	(2,691,266)
Economic assistance and opportunity	414,131	-	-	-	(414,131)
Culture and recreation	1,759,995	143,505	178,864	-	(1,437,626)
Home and community services	5,479,794	5,346,875	286,723	-	153,804
Interest on long-term debt	<u>499,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(499,583)</u>
Total governmental activities	<u>\$ 27,322,819</u>	<u>\$ 6,170,312</u>	<u>\$ 3,357,262</u>	<u>\$ -</u>	<u>(17,795,245)</u>
GENERAL REVENUES:					
Real property taxes and real property tax items					9,667,071
Nonproperty tax items					5,273,112
Use of money and property					85,531
Miscellaneous					<u>529,320</u>
Total general revenues					<u>15,555,034</u>
Change in net position					(2,240,211)
Net position - beginning of year					<u>4,769,423</u>
Net position - end of year					<u>\$ 2,529,212</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Special Revenue Funds					Total Nonmajor Governmental Funds	Total
	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund		
ASSETS							
Cash and cash equivalents - unrestricted	\$ 4,553,660	\$ 136,466	\$ 644,559	\$ 555,353	\$ 473,215	\$ 271,011	\$ 6,634,264
Cash and cash equivalents - restricted	-	1,861,280	114,297	103,530	-	-	2,079,107
Due from Federal and State governments	678,225	-	33,426	4,460	287,530	-	1,003,641
Taxes receivable, net	2,590,989	-	-	-	-	-	2,590,989
Other receivables, net	152,461	816,809	-	546,922	-	-	1,516,192
Loans receivable	-	-	2,686,309	-	-	-	2,686,309
Due from other funds	436,537	218,423	-	655	63,476	15	719,106
Total assets	\$ 8,411,872	\$ 3,032,978	\$ 3,478,591	\$ 1,210,920	\$ 824,221	\$ 271,026	\$ 17,229,608
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$ 409,830	\$ 74,554	\$ -	\$ 13,600	\$ 202,691	\$ -	\$ 700,675
Accrued liabilities	1,624,783	-	-	-	-	-	1,624,783
Due to other funds	219,092	342,584	115	104,880	5,113	-	671,784
Due to other governments	548	-	-	-	-	-	548
Bond anticipation note payable	-	-	-	-	1,500,000	-	1,500,000
Unearned revenues	45,090	-	2,686,309	-	-	-	2,731,399
Total liabilities	2,299,343	417,138	2,686,424	118,480	1,707,804	-	7,229,189
DEFERRED INFLOWS:							
Deferred taxes	2,414,123	-	-	-	-	-	2,414,123
Total deferred inflows	2,414,123	-	-	-	-	-	2,414,123
FUND BALANCES:							
Restricted	3,592,916	520,284	-	105,250	-	-	4,218,450
Assigned	19,824	2,095,556	792,167	987,190	-	271,026	4,165,763
Unassigned	85,666	-	-	-	(883,583)	-	(797,917)
Total fund balances	3,698,406	2,615,840	792,167	1,092,440	(883,583)	271,026	7,586,296
Total liabilities, deferred inflows, and fund balances	\$ 8,411,872	\$ 3,032,978	\$ 3,478,591	\$ 1,210,920	\$ 824,221	\$ 271,026	\$ 17,229,608

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Total fund balance - governmental funds \$ 7,586,296

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.

Cost of capital assets	\$ 51,183,254	
Accumulated depreciation	<u>(23,046,254)</u>	
		28,137,000

Revenue related to the tax levy is recognized when earned in the statement of activities and change in net position, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end. 2,414,123

Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred. (112,312)

Bonds payable and other noncurrent liabilities are not due and payable in the current period and; therefore, are not reported in the funds.

Bonds payable	\$ (11,940,000)	
Compensated absences	(5,951,484)	
Other postemployment benefits	(17,581,416)	
Notes payable	<u>(22,995)</u>	
		<u>(35,495,895)</u>

Total net position of governmental activities \$ 2,529,212

CITY OF CORTLAND, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue Funds					Total Nonmajor Governmental Funds	Total
	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund		
REVENUES:							
Real property taxes and tax items	\$ 8,489,432	\$ 1,172,470	\$ -	\$ -	\$ -	\$ -	\$ 9,661,902
Nonproperty tax items	5,273,112	-	-	-	-	-	5,273,112
Departmental income	613,809	2,631,248	369,242	1,868,021	-	-	5,482,320
Intergovernmental charges	230,144	-	-	13,948	-	-	244,092
Use of money and property	55,670	1,686	1,211	26,935	-	29	85,531
Licenses and permits	163,445	-	-	60	-	-	163,505
Fines and forfeitures	280,395	-	-	-	-	-	280,395
Sale of property and compensation for loss	178,496	5,177	-	1,625	-	-	185,298
Miscellaneous	32,361	225	58,964	19,875	-	232,597	344,022
State aid	2,241,711	-	-	-	783,589	-	3,025,300
Federal aid	146,245	-	185,717	-	-	-	331,962
Total revenues	17,704,820	3,810,806	615,134	1,930,464	783,589	232,626	25,077,439
EXPENDITURES:							
General governmental support	1,198,065	-	-	-	25,435	204	1,223,704
Public safety	7,305,636	-	-	-	251,291	13,759	7,570,686
Transportation	1,728,501	-	-	-	830,989	-	2,559,490
Economic assistance and opportunity	-	-	402,506	-	-	11,625	414,131
Culture and recreation	927,558	-	-	-	95,093	51,698	1,074,349
Home and community services	491,565	1,491,310	586,811	729,614	1,225,433	-	4,524,733
Employee benefits	5,523,427	327,938	-	336,366	-	-	6,187,731
Debt service -							
Principal	781,139	914,147	-	245,116	-	-	1,940,402
Interest	212,390	238,587	-	84,288	-	-	535,265
Total expenditures	18,168,281	2,971,982	989,317	1,395,384	2,428,241	77,286	26,030,491
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(463,461)	838,824	(374,183)	535,080	(1,644,652)	155,340	(953,052)
OTHER FINANCING SOURCES (USES):							
Operating transfers - in	918,274	-	-	-	-	-	918,274
Operating transfers - out	-	(598,341)	-	(319,933)	-	-	(918,274)
Total other financing sources and uses	918,274	(598,341)	-	(319,933)	-	-	-
CHANGE IN FUND BALANCE	454,813	240,483	(374,183)	215,147	(1,644,652)	155,340	(953,052)
FUND BALANCE - beginning of year	3,243,593	2,375,357	1,166,350	877,293	761,069	115,686	8,539,348
FUND BALANCE - end of year	\$ 3,698,406	\$ 2,615,840	\$ 792,167	\$ 1,092,440	\$ (883,583)	\$ 271,026	\$ 7,586,296

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances - governmental funds \$ (953,052)

Amounts reported for governmental activities in the statement of activities
and change in net position are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. Also, depreciation expense is recorded in the statement of activities and change in net position over the estimated useful lives of the assets, but not as a change in fund balance of the governmental funds as there is no cash outlay associated with the expense.

Capital additions	\$ 3,041,170	
Depreciation	<u>(1,717,354)</u>	1,323,816

Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. 5,169

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,935,000

Losses on disposal of assets are reported in the statement of activities and change in net position, but are not included in the governmental funds. (538,139)

Some expenses reported in the statement of activities and change in net position do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.

Payments on note payable	\$ 5,402	
Change in accrued interest payable	35,682	
Compensated absences	(272,798)	
Other postemployment benefits	<u>(3,781,291)</u>	<u>(4,013,005)</u>

Change in net position of governmental activities \$ (2,240,211)

CITY OF CORTLAND, NEW YORK

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 77,230
Investments	<u>159,766</u>
Total assets	<u>\$ 236,996</u>
LIABILITIES	
Due to other funds	\$ 47,322
Agency liabilities	<u>189,674</u>
Total liabilities	<u>\$ 236,996</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Cortland, New York (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City was incorporated and its original charter enacted March 16, 1900. A new charter was enacted and became effective January 1, 1978. The City is governed by its charter and other general laws of the State of New York and various local laws. The Common Council is the legislative body responsible for overall operations; the Mayor serves as Chief Executive Officer, and the Director of Administration and Finance serves as the Chief Fiscal Officer.

The following basic services are provided: public safety (police, fire and property code enforcement), highways and streets, sanitation, health, culture and recreation, public improvements, planning and zoning, and general administration.

All governmental activities and functions performed by the City are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity. The City has no component units as defined under generally accepted accounting principles.

The decision to include a potential component unit in the City's reporting entity is based on several criteria set forth by the GASB including legal standing, fiscal dependency, and financial accountability. A component unit is included in the City's reporting entity if it is both fiscally dependent on the City and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. Based on the application of these criteria, the City has determined there are no other organizations that meet criteria for inclusion in the reporting entity of the City.

1. Related Organizations

The City's officials are also responsible for appointing the members of the board of another organization, but the City's accountability for this organization does not extend beyond making the appointments.

Cortland Housing Authority (the Authority)

The Authority was created in 1957 pursuant to Section 447 of the Public Housing Law. Its general purpose is to provide housing for low-income residents of the City. Members of the board are appointed by the Mayor. Specific reasons for excluding the Authority from the City's reporting entity are as follows: The Authority's board of commissioners controls employment of personnel; the City cannot significantly influence the Authority's operations; the City has no budgetary authority; the Authority controls surpluses and deficits; the City has no responsibility for the Authority's debt; and the Authority's board of commissioners controls fiscal management.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

The City's basic financial statements include both Government-wide (reporting the City as a whole) and Governmental Fund financial statements (reporting the City's Major Funds.) Both the Government-wide and Governmental Fund financial statements categorize primary activities as either Governmental or Business-type. The City's general governmental support, education, public safety, health, transportation, highways and streets, economic assistance and opportunity, culture and recreation, and home and community services are classified as Governmental Activities. All of the City's activities are considered governmental in nature.

1. Government-Wide Financial Statements

The Government-wide financial statements include a Statement of Net Position and a Statement of Activities and Change in Net Position. These statements present summaries of activities for the primary government. Government-wide financial statements do not include the activities reported in the Fiduciary Funds. This Government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

In the Government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The Statement of Activities and Change in Net Position reports both the gross and net cost for each of the City's functions or programs. Gross expenses are direct expenses, including depreciation, that are specifically associated with a service, program or department and; therefore, clearly identifiable to a particular function. These expenses are offset by program revenues - charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the program or capital requirements of a particular program. Revenues which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The net cost represents the extent to which each function or program is self-financing or draws from the general revenues of the City.

The City does not allocate indirect costs. Indirect costs are reported in the function entitled "general government."

2. Governmental Fund Financial Statements

The financial transactions of the City are reported in individual funds in the Governmental Fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

2. Governmental Fund Financial Statements (Continued)

The City records its transactions in the funds described below:

- **Governmental Funds**

Governmental Funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following are the City's Governmental Funds:

- **Major Funds**

- a. General Fund - Principal operating fund which includes all operations not required to be recorded in other funds.
- b. Special Revenue Funds:
 - Sewer Fund - Accounts for revenues derived from charges for sewer usage and benefited assessments, and the application of such revenues toward related operating expenditures and debt retirement.
 - Special Grant Fund - Accounts for Community Development Block Grant activities.
 - Water Fund - Accounts for revenues derived from charges for water consumption and benefited assessments, and the application of such revenues toward related operating expenditures and debt retirement.
- c. Capital Projects Fund - Accounts for financial resources for the acquisition, construction, or renovation of major capital facilities, or equipment.

- **Nonmajor Funds**

- a. Permanent Fund - Accounts for assets held to benefit the City's tennis program.
- b. Special Revenue Fund - Accounts for assets held to benefit the City's community programs.

- **Fiduciary Fund Types**

Fiduciary Fund types are used to account for assets held by the local government in a trustee or custodial capacity. The following is the City's Fiduciary Fund:

- a. Agency Funds - Accounts for money and/or property received and held in the capacity of trustee, or custodian or agent. The City holds funds in an Agency capacity for local community groups.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

1. Accrual Basis

The Government-wide financial statements and Fiduciary Fund financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities and Change in Net Position presents revenues, expenses, and changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual Basis

Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges.

The City considers property tax receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. All other revenues that are deemed collectible within one year after year-end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made. Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when received. Exceptions to this general rule are that 1) principal and interest on indebtedness are not recognized as an expenditure until due, and 2) compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

D. Unearned Revenues

The City reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the City before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the City has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. On the Balance Sheet, unearned revenue arises when potential revenue does not also meet the measurable and available criteria for recognition in the current period and as such is reported as a deferred inflow of resources. In subsequent periods, when both recognition criteria are met, the deferred inflow related to this unearned revenue is removed and revenue is recognized in the Governmental Fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property Taxes

Real property taxes are levied annually no later than January 15, and become a lien on the levy date. Taxes are collected during the period of February to November of the levy year.

Property owners may pay their taxes in installments; one-half payable in February (interest free) and one-half payable in August (plus interest).

In March, the City School District returns to the City all unpaid school taxes which are levied in the preceding year. The City then assumes responsibility for their collection and enforcement. The City satisfies the school district in full by year end.

F. Receivables

Property tax receivables are stated net of estimated allowances for uncollectible amounts. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federally funded programs. Other receivables represent amounts owed to the City including sewer rents, water rents, rehabilitation loans, and assessments. No provision has been made for uncollectible accounts reported as other receivables, as it is believed that such amounts would be immaterial. All receivables are expected to be collected within the subsequent fiscal year.

Loans receivable are carried at unpaid principal balances. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The City reviews outstanding loans receivable for collectability and records an allowance for uncollectible accounts based on that review. When all collection efforts have been exhausted, the account is written-off as uncollectible. At December 31, 2013, management considered all amounts fully collectible and, accordingly, no reserve had been established.

G. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments of three months or less are considered cash equivalents. Restricted cash represents amounts restricted by law.

H. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets.

Governmental capital assets purchased or acquired with an original cost of over \$5,000 and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

Buildings and improvements	40 - 60 years
Machinery and equipment	8 - 25 years
Infrastructure	10 - 100 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Insurance

The City assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

The City is a member of the Greater Tompkins County Municipal Health Insurance Consortium (the Consortium) through which the City provides high quality cost efficient health insurance and prescription drug coverage to its employees, retirees and eligible dependents. The City pays annual premiums to the Consortium which are intended to cover the claims submitted by members. Each member of the Consortium is liable for their share of any additional assessments required for capitalization in future years.

J. Vacation, Sick Leave and Compensated Absences

City employees are granted vacation and sick leave and earn compensatory time in varying amounts in accordance with various negotiated contracts. In the event of retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. The expenditures for these benefits are recorded in the Governmental Funds at the time benefits are paid; the balance of compensated absences owed is accrued in the Statement of Net Position.

K. Postemployment Benefits

In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees in accordance with union contracts. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City, and have accumulated a certain number of hours of sick leave. Health care benefits and survivor's benefits are provided through the Consortium whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. In the Statement of Activities, and Change in Net Position, the City's Annual Required Contribution, net of retiree contributions, is expensed.

L. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Equity Classifications

1. Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - Consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

2. Governmental Fund Financial Statements

Accounting principles generally accepted in the United States provide more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balances**
These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balance at December 31, 2013.
- **Restricted Fund Balances**
These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Committed Fund Balances**
These are amounts whose use is constrained by limitations that the City imposes upon itself by ordinance and that remains binding unless removed in the same manner. The City did not have any committed fund balance at December 31, 2013.
- **Assigned Fund Balances**
These are amounts that do not meet the criteria to be classified as restricted or committed but that reflects the City's intended use of resources. Assignments of fund balance may be established, modified, or rescinded only through resolutions approved by the Common Council.
- **Unassigned Fund Balances**
The unassigned fund balance is the residual classification for the General Fund. This classification represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The unassigned balance also consists of negative fund balance in the Capital Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Restricted Resources

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Common Council has provided otherwise in its commitment or assignment actions.

O. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year end is provided subsequently in these notes.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Except as indicated below, budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered a disbursement in the financial plan or an expenditure in GAAP based financial statements. Encumbrances reserve a portion of the applicable appropriation for purchase orders, contracts, and other commitments not expended at year end, thereby ensuring that appropriations are not exceeded.

An annual legal budget is not adopted for the Special Grant Fund, which is one of the Special Revenue Funds. Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements. The Special Grant Fund also covers a period other than the City's fiscal year.

The budget policies are as follows:

- 1) On or before September 1st of each year, the various boards and commissions or, where no board or commission exists, the persons appointed as administrative heads of the units or authorized agencies of the City government, shall submit to the Mayor their budget for the ensuing fiscal year. In the event a budget is not submitted, the Mayor shall direct the Director of Finance and Administration to prepare one. The Mayor and the Director of Finance and Administration then review the submitted budgets.
- 2) By October 15th, the Mayor shall submit the tentative City budget to the Common Council and file it with the City Clerk. Upon filing the tentative City budget, a notice shall be placed in the official newspapers of the City.
- 3) By November 15th, the Mayor shall approve or amend the tentative City budget which shall then become the proposed budget and a notice shall be published in the official newspapers.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

- 4) No later than December 1st, the proposed budget is published in the official newspapers and a notice of the place and time of the public hearing to be held no later than December 15th.
- 5) After the public hearing, by December 31st, the Common Council shall adopt the final City budget.
- 6) All subsequent modifications of the budget must be approved by the Common Council.
- 7) Annual budgets adopted represent a legal limit on expenditures for that time period. At the end of each year, unexpended, unencumbered appropriations lapse.

- **Budget/GAAP Reconciliation**

The City reports its budgetary status with the actual data, including outstanding encumbrances as charges against budget appropriations. This results in the following reconciliation of the fund balances computed on GAAP basis and budgetary basis:

General Fund

GAAP basis fund balance at December 31, 2013	\$ 3,698,406
Less: Outstanding encumbrances	<u>(19,824)</u>

Budgetary basis fund balance at December 31, 2013	<u>\$ 3,678,582</u>
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There were no adjustments to fund balance required for the sewer or water funds to reconcile current GAAP fund balance to the budget basis fund balance.

- **Fund Balance Deficit**

The deficit of the Capital Fund was \$883,583 at December 31, 2013. This deficit results from Bond Anticipation Notes (BANs) that have not yet been converted to long-term financing. It is expected that the deficit will decrease to zero when the City converts the BANs into long-term financing.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Available cash of the City is deposited and invested in accordance with the provisions of applicable State statutes. The City also has its own written investment guidelines which have been established by the Common Council.

The City deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts at, or certificates of deposit issued by, FDIC-insured commercial banks or trust companies located within the State. Some of the City's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for City operating cash and for investment purposes.

The City's bank accounts are maintained in separate demand accounts with the respective offset being to various fund equities in pooled cash, investments, and restricted cash. Interest income from the pooled accounts is allocated based on the funds' respective share of the pool.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, contractual repurchase agreements, and obligations of New York State. Per existing policies, the underlying securities for repurchase transactions must be only federal obligations.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Banks satisfy collateral requirements by pledging eligible securities as specified in Section 10 of New York State General Municipal Law.

The City does not typically purchase investments, and is not exposed to material interest rate risk and does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

Primary Government, including Fiduciary Funds

Total deposits of cash and cash equivalents are as follows for the years ended December 31, 2013:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 86,540	\$ 1,194,174
Time deposits	<u>8,704,061</u>	<u>8,699,586</u>
Total cash and cash equivalents	<u>\$ 8,790,601</u>	<u>\$ 9,893,760</u>
Insured cash - FDIC		\$ 1,115,037
Uninsured - collateralized with securities held by pledging financial institution		<u>9,316,982</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 10,432,019</u>

Restricted cash was \$2,079,107 at December 31, 2013 and represents amounts restricted for reserves.

4. RECEIVABLES

Receivables for governmental funds at December 31, 2013 are as follows:

General Fund:	
Taxes receivable, net	\$ 2,590,989
Due from federal and state governments	678,225
Other receivables, net	<u>152,461</u>
Total general fund	<u>3,421,675</u>
Capital Projects Fund:	
Due from federal and state governments	<u>287,530</u>
Total capital projects fund	<u>287,530</u>
Special Revenue Funds:	
Sewer fund:	
Sewer rents receivable	<u>816,809</u>
Water Fund:	
Water rents receivable	546,922
Due from federal and state governments	<u>4,460</u>
Total water fund	<u>551,382</u>
Special Grant Fund:	
Loans receivable	2,686,309
Due from federal and state governments	<u>33,426</u>
Total special grant fund	<u>2,719,735</u>
Total receivables - governmental funds	<u>\$ 7,797,131</u>

5. PROPERTY TAXES

At December 31, 2013, gross real property tax receivables of \$2,640,989 are offset by an allowance for uncollectible taxes of \$50,000. The remaining portion of property tax receivables is partially offset by unearned tax revenue of \$2,414,123 in the fund statements and represents an estimate of the tax liens which have not been collected within the first sixty days of the subsequent year.

The 2013 real property tax levy for general City purposes totaled \$8,160,486. The City is permitted by the Constitution of the State to levy taxes up to 2% of the 5-year average for assessed valuation for general governmental services other than the payment of debt service and capital expenditures. The tax levy subject to the constitutional tax limit after exclusions of \$2,301,206 totaled \$5,859,280. The constitutional tax limit of the City for the fiscal year ended December 31, 2013 was \$10,586,617, leaving a margin of \$4,727,337.

6. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2013 are as follows:

	Balance at <u>12/31/12</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>12/31/13</u>
Governmental Activities					
Non-depreciable capital assets:					
Land	\$ 1,487,500	\$ -	\$ -	\$ -	\$ 1,487,500
Total non-depreciable capital assets	<u>1,487,500</u>	-	-	-	<u>1,487,500</u>
Depreciable capital assets:					
Building and improvements	19,643,234	-	422,019	-	20,065,253
Machinery and equipment	19,644,243	-	1,547,882	(1,102,844)	20,089,281
Infrastructure	<u>8,469,951</u>	-	<u>1,071,269</u>	-	<u>9,541,220</u>
Total depreciable capital assets	<u>47,757,428</u>	-	<u>3,041,170</u>	<u>(1,102,844)</u>	<u>49,695,754</u>
Less accumulated depreciation:					
Building and improvements	(6,308,747)	-	(397,894)	-	(6,706,641)
Machinery and equipment	(13,045,378)	-	(757,296)	564,705	(13,237,969)
Infrastructure	<u>(2,539,480)</u>	-	<u>(562,164)</u>	-	<u>(3,101,644)</u>
Total accumulated depreciation	<u>(21,893,605)</u>	-	<u>(1,717,354)</u>	<u>564,705</u>	<u>(23,046,254)</u>
Total depreciable capital assets, net	<u>25,863,823</u>	-	<u>1,323,816</u>	<u>(538,139)</u>	<u>26,649,500</u>
Capital assets, net	<u>\$ 27,351,323</u>	<u>\$ -</u>	<u>\$ 1,323,816</u>	<u>\$ (538,139)</u>	<u>\$ 28,137,000</u>

Depreciation expense was charged to the City's functions and programs as follows:

Governmental activities:

Home and community service	\$ 639,619
Transportation	569,454
Public safety	376,256
General government	84,397
Culture and recreation	<u>47,628</u>
Total depreciation expense	<u>\$ 1,717,354</u>

7. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), and the Public Employees' Group Life Insurance Plan (collectively, the Systems).

These are cost-sharing multiple-employer defined benefit retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

Membership, benefits, and employer and employee obligations to contribute are described in the NYRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Systems. They are as follows:

- Tier 1 - Those persons who last became members of the Systems before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the Systems on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the Systems on or after April 1, 2012.

The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in ERS and PFRS contribute 3% of their salary throughout their active membership. For ERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members varies between 3-6% based on each member's annual compensation.

7. PENSION PLAN (Continued)

The Systems cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The City's contributions for the years 2013, 2012 and 2011 were equal to the required contributions as follows:

<u>Year</u>	<u>ERS</u>	<u>PFRS</u>
2013	\$ 647,268	\$ 1,519,109
2012	\$ 550,821	\$ 1,411,770
2011	\$ 446,135	\$ 969,461

8. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The City provides certain health care benefits for retired employees. The City administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB).

Funding Policy

The contribution requirements of Retirement Plan members and the City are established and may be amended by the Common Council. The Common Council has negotiated several collective bargaining agreements, which include obligations of Retirement Plan members and the City. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2013, the City contributed \$1,577,272 to the Retirement Plan for current premiums. Retirement Plan members receiving benefits may be required to contribute to the Retirement Plan depending on their collective bargaining unit. The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan. There were 139 participants in the City's Retirement Plan at December 31, 2013.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years.

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and changes in the City's net OPEB obligation to the Retirement Plan:

Normal cost	\$ 1,964,976
Amortization of UAAL	<u>3,690,979</u>
Total annual required contribution	5,655,955
Interest on net OPEB obligation	552,005
Adjustment to annual required contribution	<u>(849,397)</u>
Annual OPEB cost	5,358,563
Contributions made	<u>(1,577,272)</u>
Increase in net OPEB obligation	3,781,291
NET OPEB obligation - January 1, 2013	<u>13,800,125</u>
NET OPEB obligation - December 31, 2013	<u>\$ 17,581,416</u>

Trend Information

The following table provides trend information for the Retirement Plan:

Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Actual Employer <u>Contribution</u>	Percent <u>Contributed</u>	Net OPEB <u>Obligation</u>
2013	\$5,358,563	\$1,577,272	29.4%	\$17,581,416
2012	\$5,104,718	\$1,713,334	33.6%	\$13,800,125
2011	\$4,602,845	\$1,721,496	37.4%	\$10,408,741

Schedule of Funding Progress for the City's Retirement Plan

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of Retirement Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to approximate the funding of the Retirement Plan.

Actuarial Valuation <u>Date</u>	Year <u>Ended</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2013	12/31/13	\$ <u>-</u>	\$ <u>57,660,771</u>	\$ <u>57,660,771</u>	<u>0.0%</u>	\$ <u>9,427,197</u>	<u>612.0%</u>
1/1/2012	12/31/12	\$ <u>-</u>	\$ <u>54,743,680</u>	\$ <u>54,743,680</u>	<u>0.0%</u>	\$ <u>9,225,812</u>	<u>593.4%</u>
1/1/2011	12/31/11	\$ <u>-</u>	\$ <u>51,424,389</u>	\$ <u>51,424,389</u>	<u>0.0%</u>	\$ <u>8,952,405</u>	<u>574.4%</u>

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	8.0% initially, reduced by decrements each year to an ultimate rate of 4.3% in 2082.
Unfunded actuarial accrued liability:	
Amortization period	30 years initially (25 years for current valuation)
Amortization method	Level dollar
Amortization basis	Closed

* As the Retirement Plan is unfunded, the assumed discount rate considers that the City's investment assets are low risk in nature, such as money market funds or certificates of deposit.

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws are expected to have a financial impact on employers who sponsor postretirement health care benefit plans and therefore may affect the valuation of the plan. As of the date of this statement, the City could not reasonably conclude which provisions would impact the financial accounting of the plan. Upon release of further regulatory guidance, the impact of PPACA and HCERA will be appropriately reflected in the valuation.

9. SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. The City issued two Bond Anticipation Notes (BANs) in 2013 totaling \$1,500,000. The 2013 BAN Series A was issued for \$850,000 to finance certain road improvements. The 2013 BAN Series B was issued for \$650,000 to finance wastewater treatment plant improvements. These BANs have repayment dates of July 18, 2014 and January 17, 2014, respectively, and bear interest at .57% and .51%, respectively.

The following is a summary of changes in short-term debt for the year ended December 31, 2013:

Balance, January 1, 2013	\$ -
Increases	1,500,000
Decreases	-
	<hr/>
Balance, December 31, 2013	<u>\$ 1,500,000</u>

10. LONG-TERM LIABILITIES

Constitutional Debt Limit

At December 31, 2013, the total outstanding indebtedness of the City aggregated to \$11,962,995. Of this amount, \$9,435,000 was subject to the City’s constitutional debt limit, and represented approximately 26% of its debt limit.

Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2013:

Description	Outstanding 12/31/12	Additions	Deletions	Outstanding 12/31/13	Due Within One Year
Bonds	\$ 13,875,000	\$ -	\$ (1,935,000)	\$ 11,940,000	\$ 1,825,000
Capital notes	28,397	-	(5,402)	22,995	5,637
Other postemployment benefits	13,800,125	5,358,563	(1,577,272)	17,581,416	-
Compensated absences	<u>5,678,686</u>	<u>272,798</u>	<u>-</u>	<u>5,951,484</u>	<u>1,487,871</u>
Total	<u>\$ 33,382,208</u>	<u>\$ 5,631,361</u>	<u>\$ (3,517,674)</u>	<u>\$ 35,495,895</u>	<u>\$ 3,318,508</u>

Additions and deletions to compensated absences are shown net, as it is impractical to determine these amounts separately.

For the year ended December 31, 2013, the City recognized interest expense of \$535,265 on long-term debt in the Governmental Funds. Interest paid on Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Interest expense of Governmental Activities is calculated as follows:

Interest expenditure - Governmental funds	\$ 535,265
Add: Interest accrued at December 31, 2013	112,312
Less: Interest accrued at December 31, 2012	<u>(147,994)</u>
Total interest expense - governmental activities	<u>\$ 499,583</u>

10. LONG-TERM DEBT (Continued)

The following is a statement of serial bonds with corresponding maturity schedules.

<u>Bonds Payable</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Interest</u>	<u>Final Balance</u>	Amount Due Within One <u>Year</u>
Wastewater reconstruction	11/1994	11/2015	4.1%-6.9%	\$ 1,405,000	\$ 715,000
Equipment	1/2002	1/2014	4.25%-4.5%	420,000	420,000
Public improvement	6/2005	6/2021	3.85%-3.9%	2,005,000	215,000
Public improvement	6/2006	6/2031	4.125%-4.25%	3,230,000	120,000
Refunding of 1996 Public Imp.	3/2008	3/2021	3.25%-4.375%	1,100,000	135,000
Public improvement	2/2009	2/2027	4.5%-4.875%	3,400,000	175,000
Public improvement	1/2012	5/2022	0.5%-3.1%	<u>380,000</u>	<u>45,000</u>
Total				<u>\$ 11,940,000</u>	<u>\$ 1,825,000</u>

The following table summarizes the City's future debt service requirements as of December 31, 2013 (interest expenditures do not include subsidy amounts that may be received from New York State):

<u>Years Ending December 31,</u>	<u>Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,825,000	\$ 491,019	\$ 5,637	\$ 575
2015	1,420,000	413,890	5,676	436
2016	765,000	352,618	5,817	295
2017	795,000	322,598	5,865	147
2018	825,000	290,884	-	-
2019 – 2023	3,345,000	965,262	-	-
2024 – 2028	2,230,000	386,189	-	-
2029 – 2031	<u>735,000</u>	<u>47,707</u>	-	-
Total	<u>\$ 11,940,000</u>	<u>\$ 3,270,167</u>	<u>\$ 22,995</u>	<u>\$ 1,453</u>

11. FUND BALANCES

As of December 31, 2013, fund balances are composed of the following:

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Special Grant Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>
Restricted - Law	\$ 3,592,916	\$ 520,284	\$ -	\$ 105,250	\$ -	\$ -
Assigned - General government	11,203	-	-	-	-	-
Public safety	7,806	-	-	-	-	-
Culture and recreation	815	-	-	-	-	-
Other spendable amounts	-	2,095,556	792,167	987,190	-	271,026
Unassigned	<u>85,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(883,583)</u>	<u>-</u>
Total	<u>\$ 3,698,406</u>	<u>\$ 2,615,840</u>	<u>\$ 792,167</u>	<u>\$ 1,092,440</u>	<u>\$ (883,583)</u>	<u>\$ 271,026</u>

12. INTERFUND ACTIVITIES

Interfund receivables and payables between governmental activities are eliminated on the statement of net position. The City typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

Interfund receivables and payables at December 31, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenue</u>	<u>Interfund Expense</u>
General fund	\$ 436,537	\$ 219,092	\$ 918,274	\$ -
Water fund	655	104,880	-	319,933
Nonmajor funds	15	-	-	-
Sewer fund	218,423	342,584	-	598,341
Special grant fund	-	115	-	-
Agency fund	-	47,322	-	-
Capital projects fund	<u>63,476</u>	<u>5,113</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 719,106</u>	<u>\$ 719,106</u>	<u>\$ 918,274</u>	<u>\$ 918,274</u>

13. PUBLIC ENTITY RISK POOL

Risk Financing

The City participates in a workers' compensation insurance plan (the Plan) sponsored by the Cortland County Self-Insurance Risk Pool. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

During the year ended December 31, 2013, the City incurred premiums or contribution expenditures of approximately \$172,000.

14. COMMITMENTS AND CONTINGENCIES

General Information

The City is exposed to various risks of loss related to, but not limited to, torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

14. COMMITMENTS AND CONTINGENCIES (Continued)

Judgments and Claims

The City and/or its agencies are named in several lawsuits, some of which are for substantial amounts. These claims are either adequately covered by insurance or, in the opinion of City officials, will not result in material judgments against the City or will not be pursued and; therefore, are not expected to have a material effect on the basic financial statements.

State and Federally Assisted Programs

The City receives many different state and federal grants to be used for specific purposes. These grants are generally conditioned on compliance with certain statutory, regulatory and/or contractual requirements. The City makes every effort to comply with all applicable requirements. However, because these grants are audited from time to time, it is possible that the City will be required, upon audit, to repay portions of the grant monies received and recorded as revenue in a prior year. City officials do not anticipate material grant-in-aid disallowances, and no provision, therefore, is reflected in the basic financial statements.

Concentrations

The City has agreements with the full-time members of its employees' unions. Together, these unions represent approximately 74% of the City's workforce at December 31, 2013. At December 31, 2013, approximately 15% of the City's workforce enrolled in unions with expired agreements that are currently in negotiations.

15. DEFINED CONTRIBUTION VOLUNTEER FIREFIGHTER SERVICE AWARD PROGRAMS

Length of Service Awards Program - LOSAP

The City established a defined contribution LOSAP for the active volunteer firefighters of the City of Cortland Fire Department. The program took effect in February of 2006. The program was established pursuant to Article 11-A of the General Municipal Law. The program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters. The City is the sponsor of the program.

Program Description

Participation, Vesting and Service Credit

Active volunteer firefighters who have reached the age of 18 and who have completed 1 year of firefighting service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with 5 years of firefighting service or upon attaining the program's entitlement age. The program's entitlement age is 65. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values.

Benefits

A participant's benefit under the program is the amount resulting from the contributions made by the sponsor on behalf of the participant, plus interest and/or other earnings resulting from the investment of the contributions, less necessary administrative costs, forfeitures and losses resulting from the investment of contributions. Contributions in the amount of \$480 are made on behalf of each participant who is credited with a year of firefighting service. The maximum number of years of firefighting service for which a participant may receive a contribution is forty years. Except in the case of disability or death, benefits are payable when a participant reaches entitlement age. The program provides statutorily mandatory disability and death benefits.

**15. DEFINED CONTRIBUTION VOLUNTEER FIREFIGHTER SERVICE AWARD PROGRAMS
(Continued)**

Fiduciary Investment and Control

Service credit is determined by the City Council, based on information certified to the City Council by each fire company having members who participate in the program. Each fire company must maintain all required records on forms prescribed by the City Council. The City Council of the sponsor has retained and designated The Equitable Life Assurance Society to assist in the administration of the program. The designated program administrator's functions include investing the contributions in a professionally managed account, at the participant's discretion. Disbursements for the payment of benefits or administrative expenses must be approved by the LOSAP administrator, who then requests the funds be sent to the individual from the service award fiscal manager.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. The trust agreement is dated February 2006, and the trustees include the Director of Administration and Finance of the City of Cortland, the Common Council of the City of Cortland, the Chairperson of the Board of Fire Commissions as well as the Board of Engineers.

Authority to invest program assets is vested in AXA Advisors. Program assets are invested in accordance with a statutory "prudent person" rule.

Program Financial Condition (Unaudited)

Assets and Liabilities

Assets Available for Benefits

Mutual Funds	\$ 159,766
Less: Liabilities	-
Total Net Assets Available for Benefits	<u>\$ 159,766</u>

Receipts and Disbursements

Plan Net Assets, beginning of year		\$ 139,804
Changes during the year:		
+ Plan contributions	\$ 18,720	
+ Investment income earned	-	
+/- Changes in fair market value of investments	11,913	
- Plan Benefit Withdrawals	(10,625)	
- Administrative and Other Fees/Charges	<u>(46)</u>	<u>19,962</u>
Plan Net Assets, end of year		<u>\$ 159,766</u>

Contributions

Amount of sponsor's required contribution:	\$ 18,720
Amount of sponsor's actual contribution:	\$ 18,720

Administration Fees

Fees paid to trustee:	\$ 46
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16. SUBSEQUENT EVENTS

On January 17, 2014, the City issued a \$1,800,000 Bond Anticipation Note (BAN Series A) which matured on May 14, 2014 and bore interest at 1.16%. This 2014 BAN Series A was used for the 2013-2018 road improvement program.

On May 14, 2014 the City issued a \$1,800,000 Bond Anticipation Note (BAN Series B), which repaid BAN Series A, that matures on September 15, 2014 and bears interest at 1.15%. This 2014 BAN Series B will be used for the 2013-2018 road improvement program.

17. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. This standard improves accounting and financial reporting by expanding disclosures and required supplementary information of state and local governmental pension plans. The City is required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014. The City's management has not yet assessed the impact of this statement on its future financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Reporting for Pension Plans*. This standard improves accounting and financial reporting by requiring governments to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits through additional disclosures and required supplementary information. The City is required to adopt the provisions of Statement No. 68 for the year ending December 31, 2015. The City's management has not yet assessed the impact of this statement on its future financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City is required to adopt the provisions of this Statement for the year ending December 31, 2014. The Statement should be applied on a prospective basis and early adoption is encouraged.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payments on the guarantee. The City is required to adopt the provisions of the Statement for the year ending December 31, 2015. The Statement should be applied on a prospective basis and early adoption is encouraged.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 8,280,407	\$ 8,280,407	\$ 8,489,432	\$ 209,025
Nonproperty tax items	5,265,000	5,265,000	5,273,112	8,112
Departmental income	597,107	597,107	613,809	16,702
Intergovernmental charges	198,605	198,605	230,144	31,539
Use of money and property	49,715	49,715	55,670	5,955
Licenses and permits	234,832	234,832	163,445	(71,387)
Fines and forfeitures	267,221	267,221	280,395	13,174
Sale of property and compensation for loss	80,000	114,915	178,496	63,581
Miscellaneous	3,500	19,580	32,361	12,781
State aid	2,475,719	2,477,719	2,241,711	(236,008)
Federal aid	-	146,245	146,245	-
Total revenues	17,452,106	17,651,346	17,704,820	53,474
EXPENDITURES:				
General governmental support	1,311,960	1,265,655	1,209,268	56,387
Public safety	7,543,190	7,718,547	7,313,442	405,105
Transportation	1,605,648	1,729,700	1,728,501	1,199
Culture and recreation	990,185	1,003,939	928,373	75,566
Home and community services	482,157	491,685	491,565	120
Employee benefits	5,495,596	5,607,354	5,523,427	83,927
Debt service	941,644	941,644	993,529	(51,885)
Total expenditures	18,370,380	18,758,524	18,188,105	570,419
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(918,274)	(1,107,178)	(483,285)	623,893
OTHER FINANCING SOURCES:				
Operating transfers - in	918,274	918,274	918,274	-
Total other financing sources	918,274	918,274	918,274	-
CHANGE IN FUND BALANCE	-	(188,904)	434,989	623,893
FUND BALANCE - beginning of year	3,243,593	3,243,593	3,243,593	-
FUND BALANCE - end of year	\$ 3,243,593	\$ 3,054,689	\$ 3,678,582	\$ 623,893

The accompanying notes are an integral part of this supplementary information.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 1,165,382	\$ 1,165,382	\$ 1,172,470	\$ 7,088
Departmental income	2,665,653	2,665,653	2,631,248	(34,405)
Intergovernmental charges	30,000	30,000	-	(30,000)
Sale of property and compensation for loss	-	-	5,177	5,177
Miscellaneous	-	-	225	225
Use of money and property	425	425	1,686	1,261
State aid	35,000	35,000	-	(35,000)
Total revenues	3,896,460	3,896,460	3,810,806	(85,654)
EXPENDITURES:				
General governmental support	57,023	57,023	-	57,023
Home and community services	1,908,167	1,768,757	1,491,310	277,447
Employee benefits	167,547	327,938	327,938	-
Debt service	1,165,382	1,158,550	1,152,734	5,816
Total expenditures	3,298,119	3,312,268	2,971,982	340,286
EXCESS OF REVENUES OVER EXPENDITURES	598,341	584,192	838,824	254,632
OTHER FINANCING USES:				
Operating transfers - out	(598,341)	(598,341)	(598,341)	-
Total other financing uses	(598,341)	(598,341)	(598,341)	-
CHANGE IN FUND BALANCE	-	(14,149)	240,483	254,632
FUND BALANCE - beginning of year	2,375,357	2,375,357	2,375,357	-
FUND BALANCE - end of year	\$ 2,375,357	\$ 2,361,208	\$ 2,615,840	\$ 254,632

The accompanying notes are an integral part of this supplementary information.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Departmental income	\$ 1,798,563	\$ 1,798,563	\$ 1,868,021	\$ 69,458
Use of money and property	10,500	10,500	26,935	16,435
Licenses and permits	100	100	60	(40)
Intergovernmental charges	-	-	13,948	13,948
Sale of property and compensation for loss	3,000	3,000	1,625	(1,375)
Miscellaneous	16,500	16,500	19,875	3,375
Total revenues	<u>1,828,663</u>	<u>1,828,663</u>	<u>1,930,464</u>	<u>101,801</u>
EXPENDITURES:				
Home and community services	983,557	983,557	729,614	253,943
Employee benefits	195,769	195,769	336,366	(140,597)
Debt service	329,404	329,404	329,404	-
Total expenditures	<u>1,508,730</u>	<u>1,508,730</u>	<u>1,395,384</u>	<u>113,346</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>319,933</u>	<u>319,933</u>	<u>535,080</u>	<u>215,147</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - out	(319,933)	(319,933)	(319,933)	-
Total other financing sources (uses)	<u>(319,933)</u>	<u>(319,933)</u>	<u>(319,933)</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	-	215,147	215,147
FUND BALANCE - beginning of year	<u>877,293</u>	<u>877,293</u>	<u>877,293</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 877,293</u>	<u>\$ 877,293</u>	<u>\$ 1,092,440</u>	<u>\$ 215,147</u>

The accompanying notes are an integral part of this supplementary information.

SECTION B

OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 9, 2014

To the Mayor and Members of the
City Council of the City of Cortland, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 9, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

September 9, 2014

To the Mayor and Members of the
City Council of the City of Cortland, New York:

Report on Compliance for Each Major Federal Program

We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2013. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CITY OF CORTLAND, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	\$ 46,205
Passed through NYS Office of Community Renewal - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	670,773
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285HR146-11	<u>182,801</u>
			<u>899,779</u>
Passed through the NYS Division of Housing and Community Renewal - Home Investment Partnerships Program	14.239	20103269	<u>39,509</u>
Total U.S. Department of Housing and Urban Development			<u>939,288</u>
U.S. Department of Justice:			
Equitable Sharing Program	16.738	N/A	<u>6,606</u>
Total U.S. Department of Justice			<u>6,606</u>
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	N/A	<u>146,245</u>
Total U.S. Department of Homeland Security			<u>146,245</u>
Total Expenditures of Federal Awards			<u>\$ 1,092,139</u>

Note: Bold item denotes a major program.

CITY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2013

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs administered by the City of Cortland, New York (the City), an entity as defined in the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies, are included on the schedule of expenditures of federal awards.

2. PASS-THROUGH PROGRAMS

When the City receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than the CFDA numbers, which may be assigned by pass-through grantors are not maintained in the City's financial management system. The City has identified certain pass-through identifying numbers and included them in the schedule of expenditures of federal awards, as available.

3. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the City's general ledger.

4. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

5. MATCHING COSTS

Matching costs, i.e., the City's share of certain program costs, are not included in the reported expenditures.

SECTION C

NEW YORK STATE SINGLE AUDIT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

September 9, 2014

To the Mayor and Members of the
City Council of the City of Cortland, New York:

Report on Compliance of the State Transportation Assistance Program

We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the City's state transportation assistance program tested for the year ended December 31, 2013. The City's State Transportation Assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's state transportation assistance program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYSCRR. Those standards and Draft Part 43 of NYSCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the state transportation assistance program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program for the year ended December 31, 2013.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, but not for the purpose of expressing an opinion over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the state transportation assistance program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the state transportation assistance program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the state transportation assistance program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYSCRR. Accordingly, this report is not suitable for any other purpose.

CITY OF CORTLAND, NEW YORK

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Program Title</u>	<u>NYSDOT Contract/ Ref. Number</u>	<u>Expenditures</u>
Consolidated Local Street and Highway Improvement Program (CHIPS)	N/A	<u>\$ 282,583</u>

CITY OF CORTLAND, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2013

1. GENERAL

The accompanying Schedule of State Transportation Assistance Expended of the City of Cortland, New York (the City) presents the expenditures of all financial assistance programs provided by the New York State Department of Transportation.

2. BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Assistance Expended is presented in conformity with accounting principles generally accepted in the United States.

3. INDIRECT COSTS

There are no indirect costs in the accompanying schedule.

4. MATCHING COSTS

The costs associated with the federal and local shares of any grants obtained by the City are not included in the reported expenditures.

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:
 - No material weaknesses were identified.
2. The independent auditor's report on compliance with requirements of the state transportation assistance program; and report on internal control over compliance for the City expressed an unmodified opinion and did not disclose any material noncompliance with state transportation programs.
3. The program tested was:
 - Consolidated Local Street and Highway Improvement Program (CHIPS)

B. FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

There were no current year findings and there were no prior year findings.

C. COMPLIANCE FINDINGS AND QUESTIONED COSTS

There were no current year findings.