

**CITY OF CORTLAND, NEW YORK**

**Financial Statements as of  
and for the Year Ended  
December 31, 2015  
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 28, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Management is responsible for 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 from 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, 2015, 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)

### **Change in Accounting Principle**

As discussed in Note 2 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress - other postemployment benefits plan, schedule of proportionate share of net pension liability (asset), and schedule of contributions – pension plan 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 of America, 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 is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 of America. In our opinion, the schedule of expenditures of federal awards is 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 28, 2016 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, 2015**

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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, 2015. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$(4,000,593) 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 \$(31,964,725) at December 31, 2015. This is due primarily as a result of the City's other postemployment obligations for retiree healthcare.
- The City's annual required contribution (ARC) for other postemployment benefits (OPEB) for 2015 was \$6,552,913 and the net annual OPEB cost was \$5,996,502. The City paid \$1,745,300 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Position of \$25,957,981 for the remaining portion of the unfunded other postemployment benefit obligation.
- During the year, the City had fund expenditures that exceeded revenues of \$2,178,437 compared to last year, when the City had fund expenditures that exceeded revenues of \$1,113,275.
- General Fund revenues of \$17,866,377, supplemented by transfers into the General Fund of \$1,140,182, exceeded expenditures of \$18,492,782 in 2015 and increased fund balance by \$513,777 for the year ended December 31, 2015.

#### **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 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, the schedule of funding progress – other postemployment benefits plan, schedule of proportionate share of net pension liability (asset), and schedule of contributions – pension plan.

## **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 report information about the City as a whole and about its activities in a way that helps answer the question of whether the City 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, 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 Assets and Liabilities. 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 and deferred outflows of resources exceeded liabilities and current deferred inflows of resources by \$(4,000,593) at the close of the most recent year. Compared to the prior year, this is a decrease of \$3,128,379 or 358.7%. The principal causes for this increase is the City's implementation of GASB 68 in the current year.

## THE CITY AS A WHOLE (Continued)

Current and other assets account for 39.9% of the City's total assets. At December 31, 2015 this category amounted to \$20,562,639 which increased \$2,832,017, or 15.9% from the prior year. Implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for contributions made subsequent to the measurement date – an amendment of GASB Statement No. 68* required the recording of a prior period adjustment of \$227,882 in 2015.

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 2015-2014
	2015	2014	
Current and other assets	\$20,562,639	\$17,730,622	16%
Capital assets, net	<u>30,857,509</u>	<u>28,530,712</u>	8%
Total assets	<u>51,420,148</u>	<u>46,261,334</u>	11%
Deferred outflows - pension related	<u>1,814,878</u>	<u>-</u>	100%
Current	14,987,991	9,822,055	53%
Long-term liabilities - due in one year	2,385,992	2,793,740	-15%
Long-term liabilities - due in more than one year	<u>39,688,787</u>	<u>34,517,753</u>	15%
Total liabilities	<u>57,062,770</u>	<u>47,133,548</u>	21%
Deferred inflows - pension related	<u>172,849</u>	<u>-</u>	100%
Net investment in capital assets	22,150,727	18,818,254	18%
Restricted	5,813,405	4,627,356	26%
Unrestricted	<u>(31,964,725)</u>	<u>(24,317,824)</u>	31%
Total net position	<u>\$ (4,000,593)</u>	<u>\$ (872,214)</u>	359%

Total liabilities increased \$9,929,222, or 21.1%, over the prior year. The City issued two new BANs and a RAN which increased current liabilities by \$5,165,936 to finance wastewater treatment plant improvements and road improvements.

By far the largest portion of the City's net position, \$22,150,727, 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 \$3,332,473, or 18% 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, \$5,813,405, represents resources that are restricted by General Municipal Law. The remaining balance is a deficit primarily attributable to the City's 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.

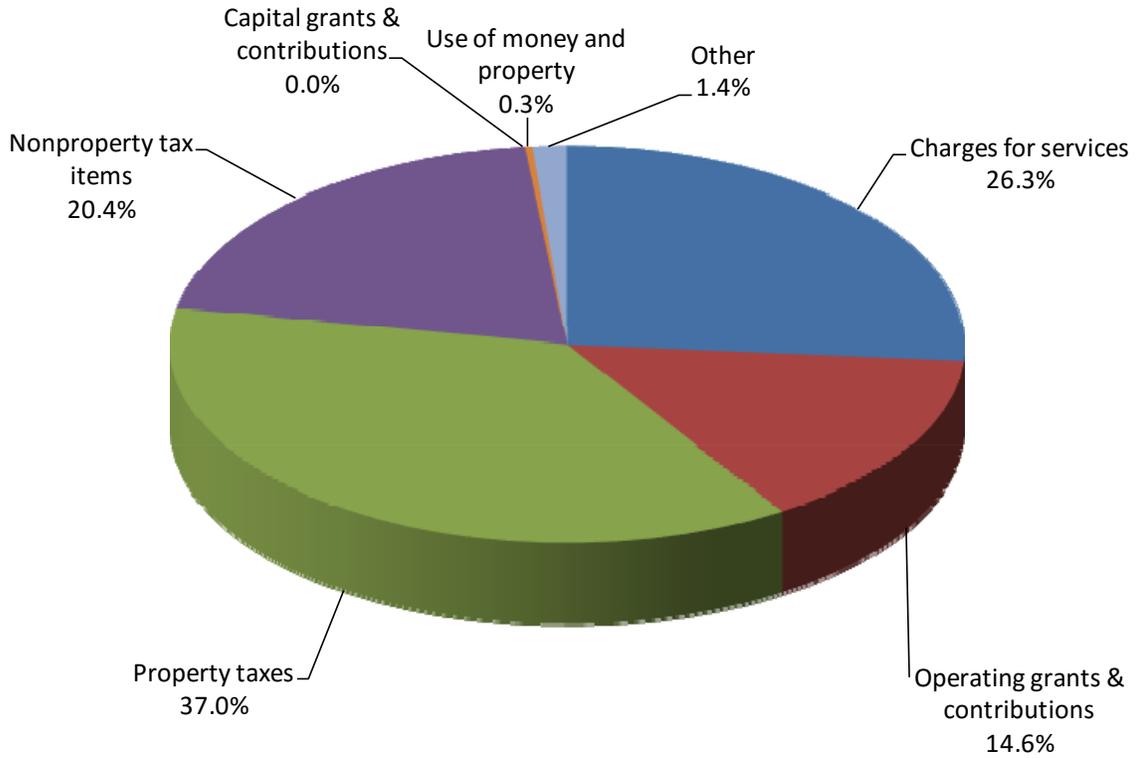
**Figure 2**  
**Changes in Net Position**

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2015</u>	<u>2014</u>	<u>2015-2014</u>
<b>REVENUES</b>			
Program revenues:			
Charges for services	\$ 6,834,534	\$ 6,230,481	10%
Operating grants	3,728,150	3,475,580	7%
General revenues:			
Property taxes and tax items	9,603,000	8,994,251	7%
Nonproperty taxes	5,324,616	5,557,989	-4%
Use of money and property	69,576	68,975	1%
Other general revenues	<u>365,838</u>	<u>392,201</u>	-7%
Total revenues	<u>25,925,714</u>	<u>24,719,477</u>	5%
<b>EXPENSES</b>			
General government	2,726,396	2,627,933	4%
Public safety	15,206,721	14,564,127	4%
Transportation	1,842,330	2,759,327	-33%
Economic assistance and opportunity	129,545	126,520	2%
Culture and recreation	1,995,285	1,803,645	11%
Home and community services	6,951,517	5,805,684	20%
Interest on long-term debt	<u>430,181</u>	<u>433,667</u>	-1%
Total expenses	<u>29,281,975</u>	<u>28,120,903</u>	4%
Change in net position	<u>\$ (3,356,261)</u>	<u>\$ (3,401,426)</u>	-1%

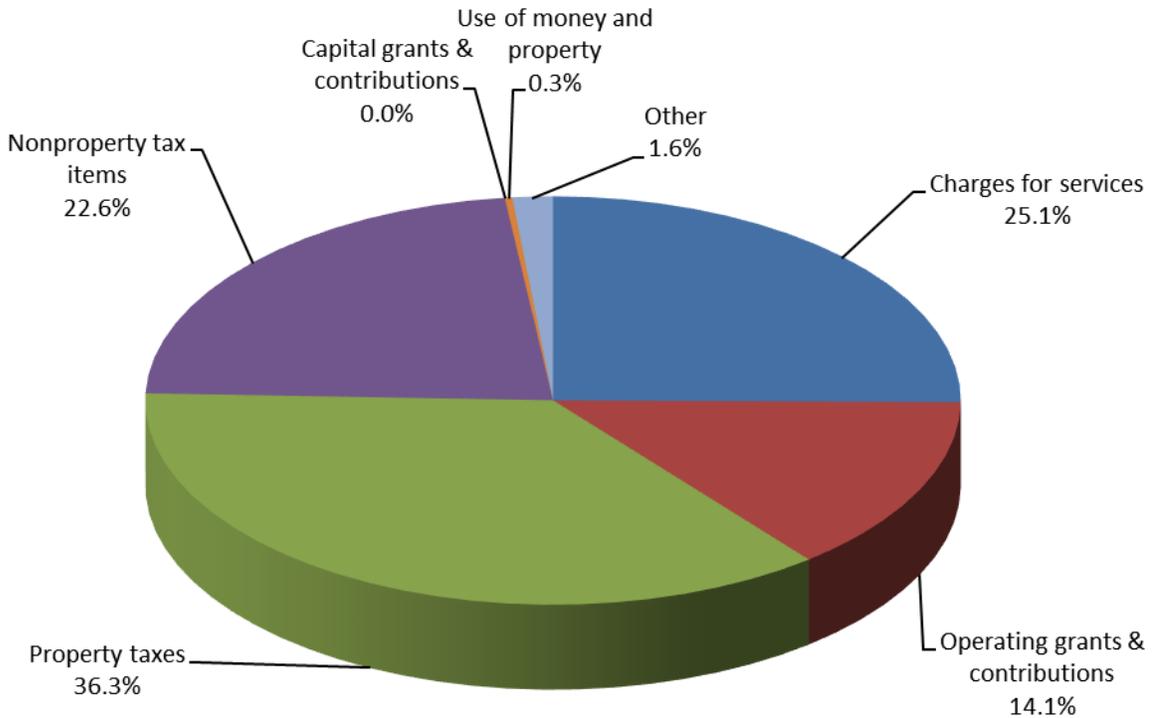
Revenues increased by \$1,206,237, or 5%, due primarily to an increase in charges for services, operating grants, and collected property taxes and tax items offset by a \$233,000 decrease in nonproperty taxes. Expenses increased \$1,161,072, or 4%, primarily due to decreases in transportation offset by increases in home and community services and culture and recreation.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2015 and 2014.

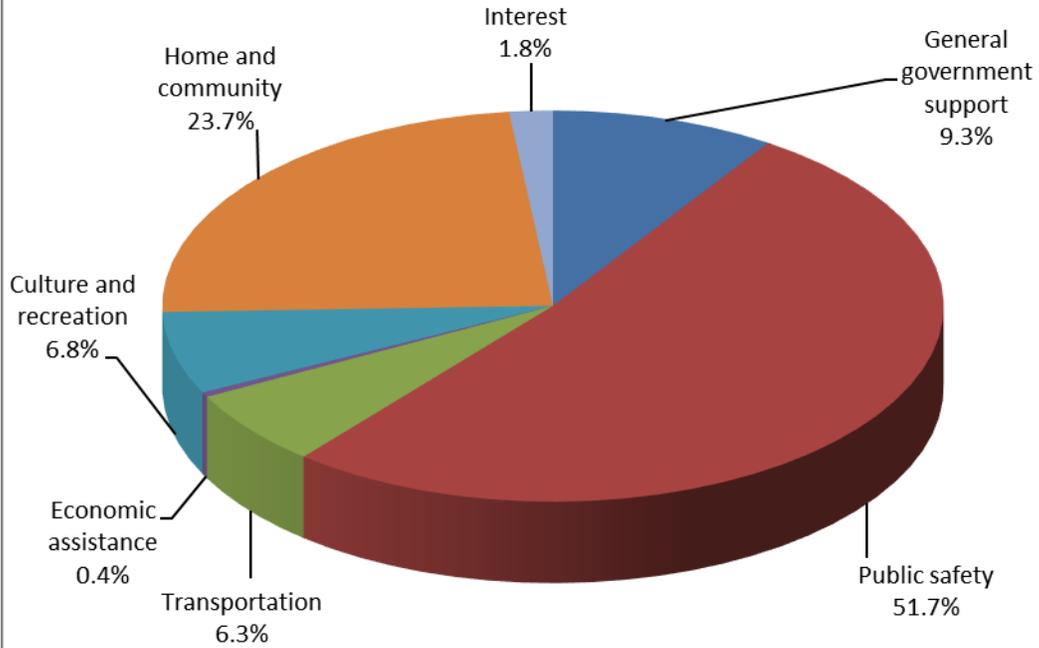
## 2015 Revenues - Governmental Activities



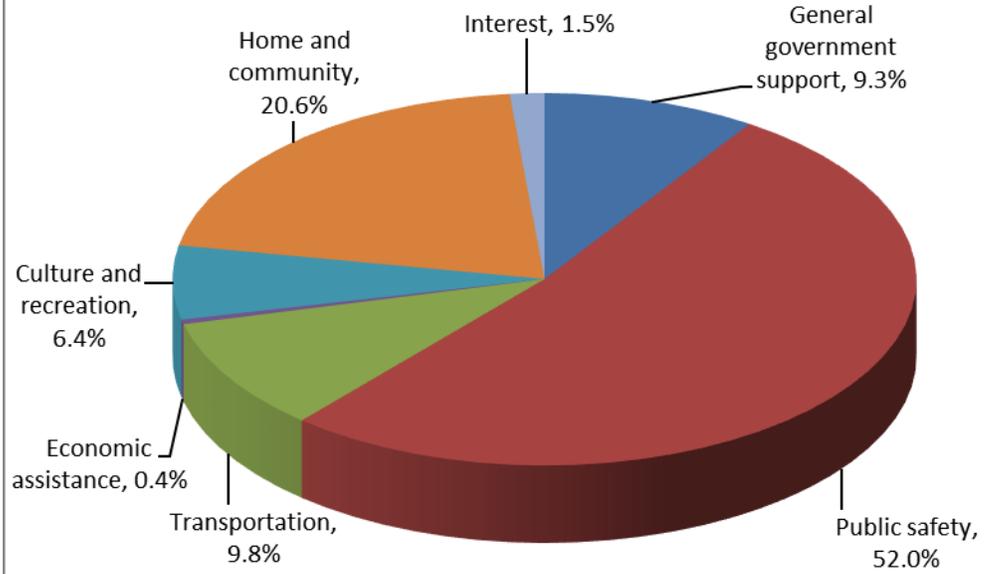
## 2014 Revenues - Governmental Activities



## 2015 Expenses - Governmental Activities



## 2014 Expenses - Governmental Activities



## THE CITY'S FUNDS

As the City completed the year, its Governmental Funds, as presented in the balance sheet, reported a combined fund balance of \$4,294,584 which is \$2,178,437 below last year's total of \$6,473,021. Figure 7 shows the fund balances at year end for the City's major funds.

**Figure 3  
Governmental Funds  
Fund Balance at Year End**

	<u>2015</u>	<u>2014</u>	Percent Change <u>2015-2014</u>
Major funds:			
General fund	\$4,728,425	\$4,214,648	12%
Special revenue funds -			
Sewer fund	3,401,692	2,828,485	20%
Special grant fund	769,512	678,487	13%
Capital projects fund	(5,760,099)	(2,467,797)	-133%
Non-major funds	<u>1,155,054</u>	<u>1,219,198</u>	-5%
Total governmental funds	<u>\$4,294,584</u>	<u>\$6,473,021</u>	-34%

### 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 nonproperty taxes, which showed an unfavorable variance of \$222,597 attributed to the decline in gasoline and fuel thus decreasing sales taxes derived from these purchases.

The actual charges to appropriations (expenditures), in total, were less than the final budget amounts by \$230,989. The most significant budget variances were expenditures in public safety at \$193,151 favorable, culture and recreation at \$189,790 favorable, and transportation at \$152,947 unfavorable. 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, 2015, the City had \$30,857,509 invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net increase of \$2,326,797 over 2014. The increase in net capital assets is comprised of additions of \$4,479,558, depreciation expense of \$1,892,248, and a loss on disposals of \$260,513.

**Figure 4**  
**Capital Assets, at Historical Cost, net**

	<u>2015</u>	<u>2014</u>	Percent Change <u>2015-2014</u>
Land	\$ 1,511,362	\$ 1,511,362	0%
Buildings and improvements, net	12,071,970	12,431,884	-3%
Machinery and equipment, net	10,446,664	7,982,937	31%
Infrastructure, net	<u>6,827,513</u>	<u>6,604,529</u>	3%
Total	<u>\$30,857,509</u>	<u>\$28,530,712</u>	8%

### Debt Administration

Debt (notes and bonds), a liability in the City's Governmental Activities, decreased by \$1,425,676, bringing the total debt outstanding to \$8,706,782 as of December 31, 2015, as shown in Figure 5. Of the amount of bonds outstanding, \$7,875,000 is subject to the constitutional debt limit and represented 21% of the City's statutory debt limit. The City's bond rating is currently A- from Standard & Poor's.

**Figure 5**  
**Outstanding Debt at Year End**

	<u>2015</u>	<u>2014</u>	Percent Change <u>2015-2014</u>
Capital notes	\$ 11,782	\$ 17,458	-33%
Serial bonds	<u>8,695,000</u>	<u>10,115,000</u>	-14%
Total	<u>\$ 8,706,782</u>	<u>\$10,132,458</u>	-14%

## **CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)**

### **Noncurrent Liabilities**

In 2015, the City's OPEB liability increased \$4,251,202. 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, 2015.

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, 2015 was calculated to be \$6,552,913 compared to \$6,133,374 at December 31, 2014. The City contributed \$1,745,300 on behalf of its retirees in 2015, resulting in a noncurrent liability of \$25,957,981 at December 31, 2015.

Additionally, the City's liability for compensated absences increased \$988,444 to \$6,460,700 as of December 31, 2015.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The economic challenges facing the City's budget in 2015 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 towns. 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.
- Many of the County's largest employers, including the hospital, SUNY Cortland, Marietta, 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 schools, jobs and services in a centralized walkable location.
- 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.

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 active in 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.

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 and the New York Susquehanna and Western Railway Corporation have developed 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 a 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 Argi-Dairy industry. Progress has been slow but there is evidence to suggest that a brighter future is in store.

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

### Demographics

The City's 3.9 square miles accounts for only .8% of the County's total land area, however 39% of the County's population (49,231) resides in the City (19,218). 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 7,110 students.

### POPULATION TREND 1970-2014

	1970	1980	1990	2000	2010	2014
Cortland County	45,894	48,820	48,963	48,599	48,336	49,231
City of Cortland	19,621	20,138	19,801	18,740	19,204	19,218

The City's population has increased 478 (2.6%) from 2000. The total 2014 population of the County has increased 682 (1.3%) over 2000. In comparison, the State's population increased 3.3% from 2000 to 2014 while the Nation's population increased 11.6% during the same time period.

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 26.7 years in 2014. The City's median age is significantly lower than the County' 36.0 years (2014) reflecting the impact of SUNY Cortland's student population. The State's median age in 2014 was 38.1.

### CITY'S MEDIAN AGE

1990	2000	2010	2014
26.1	27.8	25.9	26.7

In contrast to the surrounding towns in Cortland County the City's 2014 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.

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

### Demographics (Continued)

TOWN	MEDIAN AGE
Cincinnati	41.7
Cortlandville	41.3
Cuyler	38.1
Freetown	41.1
Harford	39.6
Lapeer	40.8
Marathon	40.9
Preble	45.2
Scott	41.0
Solon	42.4
Taylor	40.9
Truxton	41.8
Virgil	41.9
Willet	37.4

Of particular significance are the changes from 1990 to 2014 is the composition of the City's age brackets (shown on the following page). While the aggregate percentage of residents under the age of 18 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 18 and 64 year of age have comprised approximately 72% of the City total population. However, within this age bracket there has been shift downward in the number residents in the 35 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	2014
Under 5	6.3%	5.3%	5.2%	4.9%
6 - 19	19.3%	23.0%	22.7%	22.9%
20-24	28.8%	18.3%	20.5%	19.9%
25-44	25.5%	23.7%	21.0%	21.1%
45-64	12.9%	16.7%	19.8%	19.5%
65-79	3.5%	7.5%	6.6%	7.5%
Over 80	3.7%	5.5%	4.2%	4.0%

The City's population is relatively homogeneous in relation to race. In 2014, 91.4% of the City population is white while 93.9 % 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 2.5%, respectfully.

### Housing stock

There are 7,542 housing units, including student rentals, within the City of which 6,732 (89.3%) are occupied. County-wide there are 20,554 housing units with an 87.8% occupancy rate. 43.69% of the City's housing units are owner occupied compared to 66.3% 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	
<b>TOTAL VACANT UNITS</b>	810	10.7%	2,509	12.2%
<b>For Rent</b>	150	2.0%	259	1.3%
<b>Rented, not Occupied</b>	209	2.8%	278	1.4%
<b>For Sale Only</b>	72	1.0%	126	.6%
<b>Sold, not Occupied</b>	-	-	27	.1%
<b>For Seasonal, Recreation, Occasional Use</b>	8	.1%	854	4.2%
<b>Other Vacant</b>	371	4.9%	965	4.7%

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 1951 and a National median of 1976. 79.0% 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	
<b>Built 2005 or later</b>	8	.1%	97	.5%
<b>Built 2000 to 2004</b>	31	.4%	1,002	4.9%
<b>Built 1990 to 1999</b>	170	2.3%	1,492	7.3%
<b>Built 1980 to 1989</b>	295	3.9%	1,064	7.8%
<b>Built 1970 to 1979</b>	496	6.6%	2,375	11.6%
<b>Built 1960 to 1969</b>	583	7.7%	1,869	9.1%
<b>Built 1959 or earlier</b>	5,959	79.0%	12,115	58.9%

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.

## **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 19<sup>th</sup> century. These were supported by the railroad, which provided easy transport of goods to all areas of the country. As the 20<sup>th</sup> 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.

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

**EMPLOYMENT BY INDUSTRY 2014**

EMPLOYED POPULATION > 16 YEARS OLD	CITY		COUNTY-WIDE	
TOTAL EMPLOYMENT	8,644		23,587	
Agriculture, forestry, fishing, mining	76	.9%	654	2.8%
Construction	219	2.5%	1,289	5.5%
Manufacturing	798	9.2%	2,823	12.0%
Wholesale Trade	119	1.4%	444	1.9%
Retail Trade	1,286	14.9%	2,971	12.6%
Transportation, warehousing and utilities	212	2.5%	854	3.6%
Information	92	1.1%	193	.8%
Finance, insurance and real estate	290	3.4%	761	3.2%
Prof., scientific, mgmt., admin., and waste management	644	7.5%	1,701	7.2%
Education, health care and social assistance	3,435	39.7%	7,659	32.5%
Arts, entertainment, accommodation and food	889	10.3%	2,140	9.1%
Other services	328	3.8%	1,054	4.5%
Public administration	256	3.0%	1,044	4.4%

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 4<sup>th</sup> 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. The unemployment rate in the County in December 2015 was 5.7% compared to the State rate of 5.0%.

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 2014, 21.2% of all City residents and 11.7% of City families live in poverty. These poverty rates compare to 13.5% of County-wide residents living in poverty and 8.0% of families. Over 48% are considered "low-to-moderate" income according to the U.S. Department of Housing and Urban Development. 13.5% of the City's school age children receive free or reduced meals.

Per capita income within the City is \$18,807. The county-wide per capita income is \$23,581. Median household income within the City is \$40,229 and County-wide \$48,404.

INCOME RANGE	CITY		COUNTY-WIDE	
<b>TOTAL HOUSEHOLDS</b>	6,732		18,045	
<b>Less than \$10,000</b>	685	10.2%	1,235	6.8%
<b>\$10,000 to \$14,999</b>	664	9.9%	1,165	6.5%
<b>\$15,000 to \$24,999</b>	937	13.9%	1,998	11.1%
<b>\$25,000 to \$34,999</b>	774	11.5%	2,009	11.1%
<b>\$35,000 to \$49,999</b>	1,121	16.7%	2,844	15.8%
<b>\$50,000 to \$74,999</b>	1,238	18.4%	3,514	19.5%
<b>\$75,000 to \$99,999</b>	715	10.6%	2,257	12.5%
<b>\$100,000 to \$149,999</b>	380	5.6%	1,920	10.6%
<b>\$150,000 to \$199,000</b>	164	2.4%	826	4.6%
<b>\$200,000 or more</b>	54	.8%	277	1.5%

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 2014 as employment opportunities and wage levels slightly improved.

### MEDIAN HOUSEHOLD INCOME

2010	2011	2014
\$34,368	\$35,011	\$40,229
	Percentage Increase 1.8%	Percentage Increase 14.9%

## **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 2014, the poverty rate among all City residents is 21.2% and 13.5% among County residents. 12.7% 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 20.0% 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 60.6%.

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.

### **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, 2015**

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents - unrestricted	\$ 10,650,649
Cash and cash equivalents - restricted	885,874
Other receivables, net	1,983,022
Loans receivable	2,302,987
Due from Federal and State governments	2,369,617
Taxes receivable, net	1,558,404
Due from other funds, net	412,086
Prepaid expenses	400,000
Capital assets, net	<u>30,857,509</u>
Total assets	<u>51,420,148</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related	<u>1,814,878</u>
Total deferred outflows of resources	<u>1,814,878</u>
<b>LIABILITIES</b>	
Accounts payable	995,467
Accrued liabilities	1,570,444
Unearned revenue	2,383,448
Due to other governments	101
Bond anticipation notes payable	10,038,531
Long-term liabilities -	
Due within one year	2,385,992
Due in more than one year	<u>39,688,787</u>
Total liabilities	<u>57,062,770</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related	<u>172,849</u>
Total deferred inflows of resources	<u>172,849</u>
<b>NET POSITION</b>	
Net investment in capital assets	22,150,727
Restricted	5,813,405
Unrestricted	<u>(31,964,725)</u>
Total net position	<u>\$ (4,000,593)</u>

The accompanying notes are an integral part of these statements.

**CITY OF CORTLAND, NEW YORK**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>PRIMARY GOVERNMENT:</b>					
Governmental activities -					
General governmental support	\$ 2,726,396	\$ 617,873	\$ 2,238,244	\$ -	\$ 129,721
Public safety	15,206,721	70,105	449,390	-	(14,687,226)
Transportation	1,842,330	108,070	84,168	-	(1,650,092)
Economic assistance and opportunity	129,545	-	-	-	(129,545)
Culture and recreation	1,995,285	147,148	452,042	-	(1,396,095)
Home and community services	6,951,517	5,891,338	504,306	-	(555,873)
Interest on long-term debt	430,181	-	-	-	(430,181)
Total governmental activities	<u>\$ 29,281,975</u>	<u>\$ 6,834,534</u>	<u>\$ 3,728,150</u>	<u>\$ -</u>	<u>(18,719,291)</u>

<b>GENERAL REVENUES:</b>	
Real property taxes and real property tax items	9,603,000
Nonproperty tax items	5,324,616
Use of money and property	69,576
Miscellaneous	<u>365,838</u>
Total general revenues	<u>15,363,030</u>
Change in net position	<u>(3,356,261)</u>
Net position - beginning of year, as previously reported	(872,214)
Cumulative effect of change in accounting principle (Note 2)	<u>227,882</u>
Net position - beginning of year, as restated	<u>(644,332)</u>
Net position - end of year	<u>\$ (4,000,593)</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	Special Revenue Funds				Total Nonmajor Governmental Funds	Total
	General Fund	Sewer Fund	Special Grant Fund	Capital Projects Fund		
<b>ASSETS</b>						
Cash and cash equivalents - unrestricted	\$ 4,429,370	\$ 1,872,376	\$ -	\$ 3,827,324	\$ 521,579	\$ 10,650,649
Cash and cash equivalents - restricted	-	150,843	735,031	-	-	885,874
Due from Federal and State governments	1,458,738	24,194	33,426	853,259	-	2,369,617
Taxes receivable, net	1,558,404	-	-	-	-	1,558,404
Other receivables, net	197,851	879,335	-	239,077	666,759	1,983,022
Loans receivable	-	-	2,302,987	-	-	2,302,987
Prepaid expenses	-	-	-	400,000	-	400,000
Due from other funds	604,563	719,747	1,055	43,739	817	1,369,921
Total assets	<u>\$ 8,248,926</u>	<u>\$ 3,646,495</u>	<u>\$ 3,072,499</u>	<u>\$ 5,363,399</u>	<u>\$ 1,189,155</u>	<u>\$ 21,520,474</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 212,229	\$ 74,748	\$ -	\$ 674,389	\$ 34,101	\$ 995,467
Accrued liabilities	1,489,867	-	-	-	-	1,489,867
Due to other funds	453,913	170,055	-	333,867	-	957,835
Due to other governments	101	-	-	-	-	101
Bond anticipation note payable	-	-	-	10,038,531	-	10,038,531
Unearned revenues	3,750	-	2,302,987	76,711	-	2,383,448
Total liabilities	<u>2,159,860</u>	<u>244,803</u>	<u>2,302,987</u>	<u>11,123,498</u>	<u>34,101</u>	<u>15,865,249</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Deferred taxes	1,360,641	-	-	-	-	1,360,641
Total deferred inflows of resources	<u>1,360,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,360,641</u>
<b>FUND BALANCES:</b>						
Nonspendable	-	-	-	400,000	-	400,000
Restricted	4,499,767	544,126	769,512	-	-	5,813,405
Assigned	145,570	2,857,566	-	-	1,155,054	4,158,190
Unassigned	83,088	-	-	(6,160,099)	-	(6,077,011)
Total fund balances	<u>4,728,425</u>	<u>3,401,692</u>	<u>769,512</u>	<u>(5,760,099)</u>	<u>1,155,054</u>	<u>4,294,584</u>
Total liabilities, deferred inflows of resources, and fund balances:	<u>\$ 8,248,926</u>	<u>\$ 3,646,495</u>	<u>\$ 3,072,499</u>	<u>\$ 5,363,399</u>	<u>\$ 1,189,155</u>	<u>\$ 21,520,474</u>

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, 2015**

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Total fund balance - governmental funds		\$	4,294,584
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		\$	55,986,157
Accumulated depreciation			<u>(25,128,648)</u>
			30,857,509
Revenue related to the tax levy is recognized when earned in the statement of activities, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end.			
			1,360,641
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.			
			(80,577)
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		\$	(8,695,000)
Compensated absences			(6,460,700)
Other postemployment benefits			(25,957,981)
Net pension liability			(949,316)
Notes payable			<u>(11,782)</u>
			(42,074,779)
Deferred outflows/inflows of resources related to pensions are applicable to future periods and; therefore are not reported in the funds.			
Deferred outflow - pension related			1,814,878
Deferred inflow - pension related			<u>(172,849)</u>
Total net position of governmental activities		\$	<u>(4,000,593)</u>

The accompanying notes are an integral part of these statements.

**CITY OF CORTLAND, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Special Revenue Funds</u>				Total Nonmajor Governmental Funds	Total
	General Fund	Sewer Fund	Special Grant Fund	Capital Projects Fund		
<b>REVENUES:</b>						
Real property taxes and tax items	\$ 8,676,863	\$ 1,084,744	\$ -	\$ -	\$ -	\$ 9,761,607
Nonproperty tax items	5,324,616	-	-	-	-	5,324,616
Departmental income	655,763	2,849,951	271,470	-	2,169,314	5,946,498
Intergovernmental charges	226,041	81,967	-	7,772	8,715	324,495
Use of money and property	37,444	374	108	-	31,650	69,576
Licenses and permits	344,040	-	-	-	75	344,115
Fines and forfeitures	219,426	-	-	-	-	219,426
Sale of property and compensation for loss	62,829	525	-	-	597	63,951
Miscellaneous	65,292	-	62,721	49,318	124,556	301,887
State aid	2,254,063	-	224,259	353,132	-	2,831,454
Federal aid	-	-	480,306	416,390	-	896,696
	<u>17,866,377</u>	<u>4,017,561</u>	<u>1,038,864</u>	<u>826,612</u>	<u>2,334,907</u>	<u>26,084,321</u>
<b>EXPENDITURES:</b>						
General governmental support	2,247,859	-	-	14,334	800	2,262,993
Public safety	9,309,259	-	-	409,862	66,407	9,785,528
Transportation	1,553,885	-	-	293,647	-	1,847,532
Economic assistance and opportunity	-	-	129,545	-	-	129,545
Culture and recreation	879,270	-	-	428,768	96,440	1,404,478
Home and community services	446,724	1,431,976	818,294	2,940,465	1,150,330	6,787,789
Employee benefits	3,529,420	313,518	-	-	342,973	4,185,911
Debt service -						
Principal	363,837	873,076	-	-	188,763	1,425,676
Interest	162,528	172,550	-	31,838	66,390	433,306
	<u>18,492,782</u>	<u>2,791,120</u>	<u>947,839</u>	<u>4,118,914</u>	<u>1,912,103</u>	<u>28,262,758</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(626,405)</u>	<u>1,226,441</u>	<u>91,025</u>	<u>(3,292,302)</u>	<u>422,804</u>	<u>(2,178,437)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers - in	1,140,182	-	-	-	-	1,140,182
Operating transfers - out	-	(653,234)	-	-	(486,948)	(1,140,182)
	<u>1,140,182</u>	<u>(653,234)</u>	<u>-</u>	<u>-</u>	<u>(486,948)</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	513,777	573,207	91,025	(3,292,302)	(64,144)	(2,178,437)
<b>FUND BALANCE - beginning of year</b>	<u>4,214,648</u>	<u>2,828,485</u>	<u>678,487</u>	<u>(2,467,797)</u>	<u>1,219,198</u>	<u>6,473,021</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 4,728,425</u>	<u>\$ 3,401,692</u>	<u>\$ 769,512</u>	<u>\$ (5,760,099)</u>	<u>\$ 1,155,054</u>	<u>\$ 4,294,584</u>

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  
FOR THE YEAR ENDED DECEMBER 31, 2015**

---

Net change in fund balances - governmental funds \$ (2,178,437)

Amounts reported for governmental activities in the statement of activities 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 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	\$ 4,479,558	
Depreciation	<u>(1,892,248)</u>	2,587,310

Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. (158,607)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,420,000

Losses on disposal of assets are reported in the statement of activities, but are not included in the governmental funds. (260,513)

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

Payments on note payable	\$ 5,676	
Change in accrued interest payable	3,125	
Compensated absences	(988,444)	
Other postemployment benefits	<u>(4,251,202)</u>	(5,230,845)

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employer contributions, is reported as pension expense.

Pension contributions	1,986,494	
Cost of benefits earned, net of employee contributions	<u>(1,521,663)</u>	<u>464,831</u>

Change in net position of governmental activities \$ (3,356,261)

CITY OF CORTLAND, NEW YORK

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
DECEMBER 31, 2015

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 443,584
Investments	182,381
Due from other funds	<u>16,131</u>
Total assets	<u>\$ 642,096</u>
<b>LIABILITIES</b>	
Due to other funds	\$ 428,217
Agency liabilities	<u>213,879</u>
Total liabilities	<u>\$ 642,096</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, 2015

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### 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.

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. 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.

#### 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. 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 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.
- 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. Water Fund - Accounts for revenues derived from charges for water consumption and benefitted assessments, and the application of such revenues toward related operating expenditures and debt retirement.

- **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 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, 2015, 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.

### H. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair 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, 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.
- **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, 2015.
- **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.

### **P. Deferred Outflows/Inflows of Resources**

In addition to assets and liabilities, the Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. The separate financial statement element, deferred outflows of resources, represents a use of resources that applies to a future period and so will not be recognized as an outflow (expense/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

## 2. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for contributions made subsequent to the measurement date – an amendment of GASB Statement No. 68*. Statement No. 68 and Statement No. 71 establish accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68 and Statement No. 71, as well as for non-employer governments that have a legal obligation to contribute to those plans. Accordingly, Beginning Net Position and Net Pension Liability (Asset) on the Statement of Net Position was adjusted as noted in the following table:

	Government-Wide Statement of Net Position		
	Net Pension Liability	Deferred Outflows	Net Position
Balance at December 31, 2014, as previously reported	\$ -	\$ -	\$ (872,214)
Restatement of beginning balance - Adoption of GASB Statement No. 68			
Contributions subsequent to measurement date	-	1,588,199	1,588,199
NYS Employee Retirement System Plan	(577,429)	-	(577,429)
NYS Police and Firefighters' Retirement System Plan	(782,888)	-	(782,888)
	<u>(1,360,317)</u>	<u>1,588,199</u>	<u>227,882</u>
Balance at December 31, 2014, as restated	<u>\$ (1,360,317)</u>	<u>\$ 1,588,199</u>	<u>\$ (644,332)</u>

## 3. 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 1<sup>st</sup> 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. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

#### Budgetary Information (Continued)

- 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.
- 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, 2015	\$ 4,728,425
Less: Outstanding encumbrances	<u>(145,570)</u>
Budgetary basis fund balance at December 31, 2015	<u>\$ 4,582,855</u>

There were no adjustments to fund balance required for the sewer fund to reconcile current GAAP fund balance to the budget basis fund balance.

#### Fund Balance Deficit

The deficit of the Capital Fund was \$5,760,099 at December 31, 2015. 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.

### 4. 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.

#### 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

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.

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, 2015:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ (713,544)	\$ 1,997,467
Time deposits	<u>12,692,430</u>	<u>12,693,523</u>
Total cash and cash equivalents	<u>\$ 11,978,886</u>	<u>\$ 14,690,990</u>
Insured cash - FDIC		\$ 1,176,387
Uninsured - collateralized with securities held by pledging financial institution		<u>14,000,969</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 15,177,356</u>

Restricted cash was \$885,874 at December 31, 2015 and represents amounts restricted for reserves or by various funding agencies.

## 5. RECEIVABLES

Receivables for governmental funds at December 31, 2015 are as follows:

General Fund:	
Taxes receivable, net	\$ 1,558,404
Due from federal and state governments	1,458,738
Other receivables, net	<u>197,851</u>
Total general fund	<u>3,214,993</u>
Capital Projects Fund:	
Other receivables	239,077
Due from federal and state governments	<u>853,259</u>
Total capital projects fund	<u>1,092,336</u>
Special Revenue Funds:	
Sewer fund:	
Sewer rents receivable	879,335
Due from federal and state governments	<u>24,194</u>
Total sewer fund	<u>903,529</u>
Special Grant Fund:	
Loans receivable	2,302,987
Due from federal and state governments	<u>33,426</u>
Total special grant fund	<u>2,336,413</u>
Nonmajor Governmental Funds:	
Water rents receivable	<u>666,759</u>
Total nonmajor governmental funds	<u>666,759</u>
Total receivables - governmental funds	<u>\$ 8,214,030</u>

## 6. PROPERTY TAXES

At December 31, 2015, gross real property tax receivables of \$1,608,404 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 \$1,360,641 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 2015 real property tax levy for general City purposes totaled \$8,188,793. 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 \$787,829 totaled \$7,400,964. The constitutional tax limit of the City for the fiscal year ended December 31, 2015 was \$10,555,257, leaving a margin of \$3,154,293.

## 7. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2015 are as follows:

	Balance at <u>12/31/2014</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>12/31/2015</u>
<b>Governmental Activities</b>					
Non-depreciable capital assets:					
Land	\$ 1,511,362	\$ -	\$ -	\$ -	\$ 1,511,362
Total non-depreciable capital assets	<u>1,511,362</u>	-	-	-	<u>1,511,362</u>
Depreciable capital assets:					
Building and improvements	19,035,668	-	24,654	-	19,060,322
Machinery and equipment	21,690,709	(30,515)	3,472,722	(969,595)	24,163,321
Infrastructure	<u>10,331,757</u>	<u>30,515</u>	<u>982,182</u>	<u>(93,302)</u>	<u>11,251,152</u>
Total depreciable capital assets	<u>51,058,134</u>	-	<u>4,479,558</u>	<u>(1,062,897)</u>	<u>54,474,795</u>
Less accumulated depreciation:					
Building and improvements	(6,603,784)	-	(384,567)	-	(6,988,351)
Machinery and equipment	(13,707,772)	-	(811,270)	802,384	(13,716,658)
Infrastructure	<u>(3,727,228)</u>	-	<u>(696,411)</u>	-	<u>(4,423,639)</u>
Total accumulated depreciation	<u>(24,038,784)</u>	-	<u>(1,892,248)</u>	<u>802,384</u>	<u>(25,128,648)</u>
Total depreciable capital assets, net	<u>27,019,350</u>	-	<u>2,587,310</u>	<u>(260,513)</u>	<u>29,346,147</u>
Capital assets, net	<u>\$ 28,530,712</u>	<u>\$ -</u>	<u>\$ 2,587,310</u>	<u>\$ (260,513)</u>	<u>\$ 30,857,509</u>

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

Governmental activities:

Home and community service	\$ 664,583
Transportation	679,392
Public safety	407,102
General government	91,055
Culture and recreation	<u>50,116</u>
Total depreciation expense	<u>\$ 1,892,248</u>

## 8. PENSION PLAN

### 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, public employee 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 NYSRSSL, 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 Policies

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

- Tier 1 - Those persons who last became members of the System 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 System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

### Contributions

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976, who contribute 3.0% percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0% percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the ERS' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>	<u>PFRS</u>
2015	\$ 535,959	\$ 1,450,535
2014	\$ 580,997	\$ 1,536,601
2013	\$ 647,268	\$ 1,519,109

**8. PENSION PLAN (Continued)**

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

At December 31, 2015 the City reported a net pension liability of \$431,679 and \$517,637 for its proportionate share of the ERS and PFRS net pension liability, respectively. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2015, the City's proportionate share was .0127782% and .1880543% for ERS and PFRS, respectively, which remained unchanged from its proportionate share measured at December 31, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$370,570 and \$1,151,093 for ERS and PFRS, respectively. At December 31, 2015, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>ERS</b>		
Differences between expected and actual experience	\$ 13,819	\$ -
Net difference between projected and actual earnings on pension plan investments	74,977	-
Changes in proportion and differences between the Town's contributions and proportionate share of contributi	-	35,378
Contributions subsequent to the measurement date	<u>401,969</u>	<u>-</u>
Total	<u>\$ 490,765</u>	<u>\$ 35,378</u>
<b>PFRS</b>		
Differences between expected and actual experience	\$ 62,424	\$ -
Net difference between projected and actual earnings on pension plan investments	173,788	-
Changes in proportion and differences between the Town's contributions and proportionate share of contributi	-	137,471
Contributions subsequent to the measurement date	<u>1,087,901</u>	<u>-</u>
Total	<u>\$ 1,324,113</u>	<u>\$ 137,471</u>

## 8. PENSION PLAN (Continued)

### Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for ERS and PFRS, respectively:

Plan's Year Ended March 31:	<u>ERS</u>	<u>PFRS</u>
2016	\$ 13,354	\$28,438
2017	13,354	28,438
2018	13,354	28,438
2019	13,354	28,438
2020	-	(15,009)
Thereafter	-	-
	<u>\$ 53,416</u>	<u>\$98,743</u>

The City recognized \$401,969 and \$1,087,901 related to ERS and PFRS, respectively, as a deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2015 which will be recognized as a reduction of the net pension liability in the year ended December 31, 2015.

### Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The total pension liability for the March 31, 2014 measurement date was determined by using an actuarial valuation as of April 1, 2014.

The actuarial valuation used the following actuarial assumptions for both the ERS and PFRS:

Actuarial cost method	Entry age normal
Inflation	2.70%
Salary scale	4.9% indexed by service
Projected COLAs	1.4% compounded annually
Decrements	Developed from the Plan's 2010 experience study of the period April 1, 2005 through March 31, 2010
Mortality improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.5% compounded annually, net of investment expenses

### Long-term Rate of Return

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expect future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

## 8. PENSION PLAN (Continued)

### Long-term Rate of Return (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below:

Asset Type	Target Allocations in %	Long-Term expected real rate of return in %
Domestic Equity	38	7.30
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return	3	6.75
Opportunistic Portfolio	3	8.60
Real Asset	3	8.65
Bonds & Mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed Bonds	2	4.00
	<u>100%</u>	

### Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents The City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Discount 7.50%	1% Increase 8.50%
ERS Proportionate Share of Net Pension liability (asset)	<u>\$ 2,877,327</u>	<u>\$ 431,679</u>	<u>\$ (1,633,055)</u>
PFRS Proportionate Share of Net Pension liability (asset)	<u>\$ 6,892,071</u>	<u>\$ 517,637</u>	<u>\$ (4,824,523)</u>

## 8. PENSION PLAN (Continued)

### Pension Plan Fiduciary Net Position (000's)

The components of the current-year net pension liability of the employers as of March 31, 2015 for ERS and PFRS respectively follow:

Total pension liability	\$ 164,591,504
Net position	<u>(161,213,259)</u>
Net pension liability (asset)	<u>\$ 3,378,245</u>
ERS net position as a percentage of total pension liability	-97.9%
Total pension liability	\$ 28,474,417
Net position	<u>(28,199,157)</u>
Net pension liability (asset)	<u>\$ 275,260</u>
PFRS net position as a percentage of total pension liability	-99.0%

## 9. 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, 2015, the City contributed \$1,745,300 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 140 participants in the City's Retirement Plan at December 31, 2015.

### 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.

**9. 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	\$ 2,315,871
Amortization of UAAL	<u>4,237,042</u>
Total annual required contribution	6,552,913
Interest on net OPEB obligation	900,332
Adjustment to annual required contribution	<u>(1,456,743)</u>
Annual OPEB cost	5,996,502
Contributions made	<u>(1,745,300)</u>
Increase in net OPEB obligation	4,251,202
NET OPEB obligation - January 1, 2015	<u>21,706,779</u>
NET OPEB obligation - December 31, 2015	<u>\$ 25,957,981</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>
2015	\$5,996,502	\$1,745,300	29.1%	\$25,957,981
2014	\$5,717,893	\$1,592,530	27.9%	\$21,706,779
2013	\$5,358,563	\$1,577,272	29.4%	\$17,581,416

## 9. 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, 2015 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	6.5% initially, reduced by decrements each year to an ultimate rate of 4.2% in 2084.
Unfunded actuarial accrued liability:	
Amortization period	30 years (23 years remaining)
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.

## 10. SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. The City issued two Bond Anticipation Notes (BANs) and one Revenue Anticipation Note (RAN) in 2015 totaling \$5,621,500 as noted below.

In September 2014, the City entered into a project financing agreement with the NYS Environmental Facilities Corporation (EFC) to finance renovations to the waste water treatment plant. The borrowing is in the form of a Bond Anticipation Note that has a maximum borrowing of \$13,209,000, with a maturity date of September 4, 2017. The EFC BAN includes a \$6,604,500 interest-free portion and a \$6,604,500 market rate component (0.31%). The City borrows first on the interest free portion, followed by the market rate portion. During 2015, \$2,595,283 had been advanced to the City.

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
BAN A	July 17, 2015	January 6, 2016	0.78%	\$ 330,000
BAN B	December 3, 2015	December 2, 2016	1.09%	4,491,500
RAN A	December 3, 2015	December 2, 2016	1.09%	800,000
EFC Clean Water Facility Note 2014A	September 4, 2014	September 4, 2017	0.00%	<u>4,417,031</u>
				<u>\$10,038,531</u>

**10. SHORT-TERM DEBT (Continued)**

The following is a summary of changes in short-term debt for the year ended December 31, 2015:

Balance, January 1, 2015	\$ 5,031,248
Increases	8,192,783
Decreases	<u>(3,185,500)</u>
Balance, December 31, 2015	<u>\$ 10,038,531</u>

**11. LONG-TERM LIABILITIES**

**Constitutional Debt Limit**

At December 31, 2015, the total outstanding indebtedness of the City aggregated to \$8,695,000. Of this amount, \$7,875,000 was subject to the City's constitutional debt limit, and represented approximately 21% 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, 2015:

<u>Description</u>	<u>Outstanding 12/31/14 (as restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 12/31/15</u>	<u>Due Within One Year</u>
Bonds	\$ 10,115,000	\$ -	\$ (1,420,000)	\$ 8,695,000	\$ 765,000
Capital notes	17,458	-	(5,676)	11,782	5,817
Other postemployment benefits	21,706,779	5,996,502	(1,745,300)	25,957,981	-
Net pension liability	1,360,317	-	(411,001)	949,316	-
Compensated absences	<u>5,472,256</u>	<u>988,444</u>	<u>-</u>	<u>6,460,700</u>	<u>1,615,175</u>
Total	<u>\$ 38,671,810</u>	<u>\$ 6,984,946</u>	<u>\$ (3,581,977)</u>	<u>\$ 42,074,779</u>	<u>\$ 2,385,992</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, 2015, the City recognized interest expenditures of \$433,306 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 expenditures - Governmental Funds	\$ 433,306
Add: Interest accrued at December 31, 2015	80,577
Less: Interest accrued at December 31, 2014	<u>(83,702)</u>
Total interest expense - Governmental Activities	<u>\$ 430,181</u>

## 11. 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>
Public improvement	6/2005	6/2021	3.85%-3.9%	\$ 1,565,000	\$ 235,000
Public improvement	6/2006	6/2031	4.125%-4.25%	2,985,000	130,000
Refunding of 1996 Public Imp.	3/2008	3/2021	3.25%-4.375%	820,000	150,000
Public improvement	2/2009	2/2027	4.5%-4.875%	3,040,000	195,000
Public improvement	1/2012	5/2022	0.5%-3.1%	<u>285,000</u>	<u>55,000</u>
Total				<u>\$ 8,695,000</u>	<u>\$ 765,000</u>

The following table summarizes the City's future debt service requirements as of December 31, 2015 (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>
2016	\$ 765,000	\$ 352,618	\$ 5,817	\$ 295
2017	795,000	322,598	5,965	147
2018	825,000	290,884	-	-
2019	865,000	257,397	-	-
2020	870,000	221,638	-	-
2021 – 2025	2,565,000	706,503	-	-
2026 – 2030	1,755,000	208,201	-	-
2031	<u>255,000</u>	<u>5,419</u>	-	-
Total	<u>\$ 8,695,000</u>	<u>\$ 2,365,258</u>	<u>\$ 11,782</u>	<u>\$ 442</u>

## 12. FUND BALANCES

As of December 31, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Special Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>
Nonspendable	\$ -	\$ -	\$ -	\$ 400,000	\$ -
Restricted -					
Law	4,499,767	544,126	-	-	-
Grantors	-	-	735,031	-	-
Assigned -					
General government	145,570	-	-	-	-
Other spendable amounts	-	2,896,281	34,481	-	1,155,054
Unassigned	<u>83,088</u>	<u>-</u>	<u>-</u>	<u>(6,160,099)</u>	<u>-</u>
Total	<u>\$ 4,728,425</u>	<u>\$ 3,401,692</u>	<u>\$ 769,512</u>	<u>\$ (5,760,099)</u>	<u>\$ 1,155,054</u>

### 13. 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, 2015 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenue</u>	<u>Interfund Expense</u>
General fund	\$ 604,563	\$ 453,913	\$ 1,140,182	\$ -
Nonmajor funds	817	-	-	486,948
Sewer fund	719,747	170,055	-	653,234
Special grant fund	1,055	-	-	-
Agency fund	16,131	428,217	-	-
Capital projects fund	<u>43,739</u>	<u>333,867</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,386,052</u>	<u>\$ 1,386,052</u>	<u>\$ 1,140,182</u>	<u>\$ 1,140,182</u>

### 14. 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, 2015, the City incurred premiums or contribution expenditures of approximately \$180,000.

### 15. 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.

## **15. 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, 2015.

## **16. 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.

### **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.

**16. 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 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**

Net Assets Available for Benefits

Mutual Funds	\$ 182,381
Less: Liabilities	-
Total Net Assets Available for Benefits	<u>\$ 182,381</u>

**Receipts and Disbursements**

Plan Net Assets, beginning of year	\$ 173,944
Changes during the year:	
+ Plan contributions	\$ 12,960
+ Investment income earned	-
+/- Changes in fair market value of investments	2,942
- Plan Benefit Withdrawals	(7,465)
- Administrative and Other Fees/Charges	<u>-</u>
Plan Net Assets, end of year	<u>\$ 182,381</u>

**Contributions**

Amount of sponsor's required contribution:	\$ 12,960
Amount of sponsor's actual contribution:	\$ 12,960

## 17. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is required to adopt the provisions of this Statement for the year ending December 31, 2016. The City's management has not yet assessed the impact of this statement on its future financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* and amends certain provisions of Statement No. 67 *Financial Reporting for Pension Plans*. The objective of this Statement is to improve the usefulness of information about pensions included in general purpose external financial reports of state and local governments for making decisions and accessing accountability. This Statement establishes requirements for defined contribution plans and defined benefit pensions not within the scope of Statement 68, *Accounting and Financial Reporting for Pensions*, as well as, assets accumulated for the purpose of providing for those pensions. Statement 73 also clarifies the application of certain provisions of Statements 67 and 68 with regards to information required to be presented in the notes, accounting and financial information reporting for separately financed specific liabilities and the timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The City is required to adopt the provisions of this Statement for the year ending December 31, 2017. The City's management has not yet assessed the impact of this statement on its future financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – a replacement of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to establish standards for recognizing and measuring liabilities, expenditures and deferred inflows of resources related to other postemployment benefit plans (OPEB). In regards to defined benefit OPEB plans, this statement defines the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employment service. This Statement also details recognition and disclosure requirements for employers with payables to defined benefit OPEB plans administered through trusts and for employers whose employees are provided with defined contribution OPEB plans. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018, with early adoption encouraged. The City's management has not yet assessed the impact of this statement on its future financial statements.

## 17. IMPACT OF FUTURE GASB PRONOUNCEMENTS (Continued)

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74, and 82. Statement No. 76 reduces the number of categories of authoritative generally accepted accounting principles (GAAP) hierarchy and the framework for selecting those principles to two categories. The primary category "Category A" will consist of officially established GASB Statements and GASB Interpretations heretofore issued and currently in effect. The second category "Category B" will consist of GASB Technical Bulletins, GASB Implementation Guides when presented in the form of a *Comprehensive Implementation Guide*, and literature of the AICPA cleared by the GASB. The goal of Statement No. 76 is to help governments apply financial reporting guidance with less variability, therefore improving usefulness and comparability of financial statement information among state and local governments. The City is required to adopt the provisions of Statement No. 76 for the year ending December 31, 2016, and should be adopted retroactively, with early adoption permitted. The City's management has not yet assessed the impact of this statement on its future financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The requirements of this Statement are effective for financial statements for the year ending December 31, 2016. Earlier application is encouraged. The City's management has not yet assessed the impact of this statement on its future financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GAS 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement addresses issues related to the presentation of payroll related measures in required supplementary information, selection of assumptions and the treatment of deviations and classification of payments made by employers to meet employee contribution requirements. The Statement takes effect for reporting periods beginning after June 15, 2016 except for the selection of assumptions in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end in which the effective date is on or after June 15, 2017. Earlier adoption is encouraged.

## 18. SUBSEQUENT EVENT

In September 2016, the City issued a New York State Environmental Facilities Corporation Series 2016B bond totaling \$11,102,734.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**CITY OF CORTLAND, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Real property taxes and tax items	\$ 8,561,687	\$ 8,561,687	\$ 8,676,863	\$ 115,176
Nonproperty tax items	5,547,213	5,547,213	5,324,616	(222,597)
Departmental income	619,758	619,758	655,763	36,005
Intergovernmental charges	212,016	212,016	226,041	14,025
Use of money and property	50,087	50,087	37,444	(12,643)
Licenses and permits	157,599	157,599	344,040	186,441
Fines and forfeitures	282,750	282,750	219,426	(63,324)
Sale of property and compensation for loss	6,400	44,087	62,829	18,742
Miscellaneous	5,000	19,512	65,292	45,780
State aid	<u>2,331,591</u>	<u>2,351,591</u>	<u>2,254,063</u>	<u>(97,528)</u>
<b>Total revenues</b>	<u>17,774,101</u>	<u>17,846,300</u>	<u>17,866,377</u>	<u>20,077</u>
<b>EXPENDITURES:</b>				
General governmental support	1,620,281	2,183,567	2,275,752	(92,185)
Public safety	9,612,421	9,568,251	9,375,100	193,151
Transportation	1,802,692	1,400,938	1,553,885	(152,947)
Culture and recreation	1,168,250	1,120,896	931,106	189,790
Home and community services	497,020	496,270	446,724	49,546
Employee benefits	3,562,254	3,573,054	3,529,420	43,634
Debt service	<u>526,365</u>	<u>526,365</u>	<u>526,365</u>	<u>-</u>
<b>Total expenditures</b>	<u>18,789,283</u>	<u>18,869,341</u>	<u>18,638,352</u>	<u>230,989</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,015,182)</u>	<u>(1,023,041)</u>	<u>(771,975)</u>	<u>251,066</u>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers - in	1,115,182	1,115,182	1,140,182	25,000
Operating transfers - out	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
<b>Total other financing sources</b>	<u>1,015,182</u>	<u>1,015,182</u>	<u>1,140,182</u>	<u>125,000</u>
<b>CHANGE IN FUND BALANCE</b>	-	(7,859)	368,207	376,066
<b>FUND BALANCE - beginning of year</b>	<u>4,214,648</u>	<u>4,214,648</u>	<u>4,214,648</u>	<u>-</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 4,214,648</u>	<u>\$ 4,206,789</u>	<u>\$ 4,582,855</u>	<u>\$ 376,066</u>

**CITY OF CORTLAND, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - SEWER FUND (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Real property taxes and tax items	\$ 1,156,090	\$ 1,156,090	\$ 1,084,744	\$ (71,346)
Departmental income	2,583,551	2,583,551	2,849,951	266,400
Intergovernmental charges	30,000	30,000	81,967	51,967
Sale of property and compensation for loss	-	-	525	525
Use of money and property	425	425	374	(51)
Total revenues	<u>3,770,066</u>	<u>3,770,066</u>	<u>4,017,561</u>	<u>247,495</u>
<b>EXPENDITURES:</b>				
General governmental support	93,568	68,568	-	68,568
Home and community services	1,778,641	1,683,549	1,431,976	251,573
Employee benefits	195,338	311,466	313,518	(2,052)
Debt service	1,049,285	1,049,285	1,045,626	3,659
Total expenditures	<u>3,116,832</u>	<u>3,112,868</u>	<u>2,791,120</u>	<u>321,748</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>653,234</u>	<u>657,198</u>	<u>1,226,441</u>	<u>569,243</u>
<b>OTHER FINANCING USES:</b>				
Operating transfers - out	(653,234)	(653,234)	(653,234)	-
Total other financing uses	<u>(653,234)</u>	<u>(653,234)</u>	<u>(653,234)</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	-	3,964	573,207	569,243
<b>FUND BALANCE - beginning of year</b>	<u>2,828,485</u>	<u>2,828,485</u>	<u>2,828,485</u>	<u>-</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 2,828,485</u>	<u>\$ 2,832,449</u>	<u>\$ 3,401,692</u>	<u>\$ 569,243</u>

**CITY OF CORTLAND, NEW YORK**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Actuarial Valuation Date</u>	<u>Year Ended</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL)</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a percentage of Covered Payroll</u>
January 1, 2015	December 31, 2015	\$ -	\$ 62,949,066	\$ 62,949,066	0.00%	\$ 9,984,711	630.5%
January 1, 2014	December 31, 2014	\$ -	\$ 59,563,399	\$ 59,563,399	0.00%	\$ 9,844,466	605.0%
January 1, 2013	December 31, 2013	\$ -	\$ 57,660,771	\$ 57,660,771	0.00%	\$ 9,427,197	611.6%

CITY OF CORTLAND, NEW YORK

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)  
 FOR THE YEAR ENDED DECEMBER 31, 2015

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of the net pension liability (asset)	0.01%									
Proportionate share of the net pension liability (asset)	\$ 432									
Covered-employee payroll	\$ 3,052									
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	14.15%									
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.90%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - PFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of the net pension liability (asset)	0.19%									
Proportionate share of the net pension liability (asset)	\$ 518									
Covered-employee payroll	\$ 5,963									
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.69%									
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.00%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

CITY OF CORTLAND, NEW YORK

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)  
 FOR THE YEAR ENDED DECEMBER 31, 2015

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 536									
Contributions in relation to the contractually required contribution	536									
Contribution deficiency (excess)	\$ -									
Covered-employee payroll	\$ 3,052									
Contributions as a percentage of covered-employee payroll	17.56%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - PFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 1,451									
Contributions in relation to the contractually required contribution	1,451									
Contribution deficiency (excess)	\$ -									
Covered-employee payroll	\$ 5,963									
Contributions as a percentage of covered-employee payroll	24.33%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

**SECTION B**  
**UNIFORM GUIDANCE**

**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 28, 2016

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, 2015, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2016.

**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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**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 ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

September 28, 2016

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 Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

(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 the Uniform Guidance, 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 the Uniform Guidance. 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, 2015**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
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	\$ <u>61,683</u>
Passed through NYS Office of Community Renewal - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	120,226
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285-CRF-HR-39-13	149,701
Non-Entitlement Grants in Hawaii	14.228	285-HR-39-13	263,423
Non-Entitlement Grants in Hawaii	14.228	285ME2-14	<u>74,022</u>
Total passed through NYS Office of Community Renewal			<u>607,372</u>
Total U.S. Department of Housing and Urban Development			<u>669,055</u>
U.S. Department of Justice:			
Equitable Sharing Program	16.922	N/A	<u>62,481</u>
Total U.S. Department of Justice			<u>62,481</u>
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	N/A	291,379
Homeland Security Grant Program	97.067	N/A	<u>125,011</u>
Total U.S. Department of Homeland Security			<u>416,390</u>
Total Expenditures of Federal Awards			<u>\$ 1,147,926</u>

## **CITY OF CORTLAND, NEW YORK**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2015**

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#### **1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal awards programs administered by the City of Cortland, New York (the City), for the year ended December 31, 2015. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

The City did not elect to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

#### **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.

**CITY OF CORTLAND, NEW YORK**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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**A. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

Material weakness(es) identified?                      Yes   X   No

Significant deficiencies identified not considered to be material weaknesses?                      Yes   X   No

Noncompliance material to financial statements noted?                      Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?                      Yes   X   No

Significant deficiencies identified not considered to be material weaknesses?                      Yes   X   No

Type of auditor's report issued on compliance for major programs Unmodified opinion for the major federal program

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?                      Yes   X   No

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   Yes                      No

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.