

PRELIMINARY OFFICIAL STATEMENT

RENEWAL ISSUE

BOND ANTICIPATION NOTES

In the opinion of Bond, Schoeneck & King, PLLC, Syracuse, New York, Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Notes is not an "item of tax preference" for purposes of the alternative minimum tax imposed by the Code on individuals. Interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision therein (including The City of New York). See "TAX MATTERS" herein for discussion of certain Federal taxes applicable to corporate owners of the Notes.

The Notes will be designated as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

\$3,100,000
CITY OF CORTLAND
CORTLAND COUNTY, NEW YORK
GENERAL OBLIGATIONS
CUSIP BASE #: 220633

\$3,100,000 Bond Anticipation Notes, 2019 (Renewals)
(the "Notes")

Dated: April 12, 2019

Due: April 10, 2020

The Notes are general obligations of the City of Cortland, Cortland County, New York, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, subject to applicable statutory limits imposed by Chapter 97 of the Laws of 2011 of the State of New York. See "TAX CAP LAW" herein.

The Notes will not be subject to redemption prior to maturity.

At the option of the successful bidder(s), the Notes will be issued registered in the name of the purchaser in the denominations of \$5,000 or multiples thereof.

Alternatively, at the option of the successful bidder(s), the Notes will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (DTC), New York, New York, which will act as the securities depository for the Notes. In such case, Noteholders will not receive certificates representing their ownership interest in the notes purchased. Under this option, payment of the principal of and interest on the Notes to the Beneficial Owner of the Notes will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices. Payment will be the responsibility of the DTC, subject to any statutory and regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Notes are offered when, as and if issued and received by the purchaser(s) and subject to the receipt of the unqualified legal opinion as to the validity of the Notes of Bond, Schoeneck & King, PLLC, Bond Counsel, Syracuse, New York. It is anticipated that the Notes will be available for delivery through the facilities of DTC located in Jersey City, New Jersey, or at such place as may be agreed upon with the purchaser(s), on or about April 12, 2019.

ELECTRONIC BIDS for the Notes must be submitted via Fiscal Advisors Auction website ("Fiscal Advisors Auction") accessible via www.fiscaladvisorsauction.com on March 27, 2019 until 10:45 A.M., Prevailing Time, pursuant to the Notice of Sale. No other form of electronic bidding services will be accepted. No bid will be received after the time for receiving bids specified above. Bids may also be submitted by facsimile at (315) 930-2354. Once the bids are communicated electronically via Fiscal Advisors Auction or facsimile to the City, each bid will constitute an irrevocable offer to purchase the Notes pursuant to the terms provided in the Notice of Sale.

March 18, 2019

THE CITY DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 ("THE RULE"), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH SAID RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE OBLIGATIONS HEREIN DESCRIBED. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDER(S), AS MORE FULLY DESCRIBED IN THE NOTICE OF SALE WITH RESPECT TO THE OBLIGATIONS HEREIN DESCRIBED. THE CITY WILL COVENANT IN AN UNDERTAKING TO PROVIDE NOTICE OF CERTAIN ENUMERATED EVENTS AS DEFINED IN THE RULE WITH RESPECT TO THE NOTES. SEE "APPENDIX – C, CONTINUING DISCLOSURE UNDERTAKING" HEREIN.

CITY OF CORTLAND CORTLAND COUNTY, NEW YORK

CITY OFFICIALS

BRIAN TOBIN

Mayor

COMMON COUNCIL

KATHLEEN MCCARTHY

GARY THOMAS

KATHRYN SILLIMAN

JOHN G. BENNETT JR.

THOMAS MICHALES

WILLIAM D. CARPENTER

CARLOS FERRER

TROY BECKWITH

MACK COOK

Director of Administration and Finance

LORI CROMPTON

Deputy Director of Administration and Finance

RAYMOND PARKER

City Clerk

RICHARD VANDONSEL

Corporation Counsel



FISCAL ADVISORS & MARKETING, INC.

Municipal Advisor

BOND SCHOENECK
& KING

BOND, SCHOENECK & KING, PLLC

Syracuse, New York

Bond Counsel

No person has been authorized by the City to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information, estimates, and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City.

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PREPARED WITH THE ASSISTANCE OF



Fiscal Advisors & Marketing, Inc.
 120 Walton Street, Suite 600
 Syracuse, New York 13202
 (315) 752-0051
<http://www.fiscaladvisors.com>

**OFFICIAL STATEMENT
OF THE
CITY OF CORTLAND
CORTLAND COUNTY, NEW YORK**

**Relating To
\$3,100,000 Bond Anticipation Notes, 2019 (Renewals)**

This Official Statement, which includes the cover page and Appendices, has been prepared by the City of Cortland, Cortland County, New York (the "City," "County," and "State," respectively) in connection with the sale by the City of \$3,100,000 Bond Anticipation Notes, 2019 (Renewals) (the "Notes").

The factors affecting the City's financial condition and the Notes are described throughout this Official Statement. Inasmuch as many of these factors, including economic and demographic factors, are complex and may influence the City's tax base, revenues, and expenditures, this Official Statement should be read in its entirety.

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Notes and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive forms of the Notes and such proceedings.

THE NOTES

Description of the Notes

The Notes are general obligations of the City, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes as required by the Constitution and laws of the State (State Constitution, Art. VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, subject to applicable statutory limits imposed by Chapter 97 of the Laws of 2011 of the State of New York. See "TAX CAP LAW" herein.

The Notes are dated April 12, 2019 and will mature, without option of prior redemption, on April 10, 2020.

The Notes will be issued in registered form at the option of the Purchaser(s) either (i) requested in the name of the purchaser, in denominations of \$5,000 or integral multiples thereof, or (ii) registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC") which will act as the securities depository for the Notes. See "BOOK-ENTRY-ONLY SYSTEM" herein.

No Optional Redemption

The Notes are not subject to redemption prior to maturity.

Purpose of Issue

The Bond Anticipation Notes are issued pursuant to the Constitution and statutes of the State including among others, the Local Finance Law and bond resolution adopted by the Common Council on January 16, 2018 authorizing the issuance of \$4,100,000 serial bonds to finance the cost of the reconstruction of the City's wastewater treatment plant.

The proceeds of the Notes will redeem the \$3,100,000 bond anticipation notes maturing on April 12, 2019 for the above-mentioned purpose.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes, if requested. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for Notes bearing the same rate of interest and CUSIP number, and will be deposited with DTC.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company.

THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE NOTES (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE NOTES, (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE NOTES, OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE NOTES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE NOTES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE NOTES.

THE INFORMATION CONTAINED HEREIN CONCERNING DTC AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC AND THE CITY MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

Certificated Notes

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only system transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply:

The Notes will be issued in registered form registered in the name of the Purchaser in denominations of \$5,000 or integral multiples thereof. Principal of and interest on the Notes will be payable at the City. The Notes will remain not subject to redemption prior to their stated final maturity date.

THE CITY

General Information

The City is located in upstate New York and lies in the west-central sector of Cortland County. It is 35 miles south of the City of Syracuse, 25 miles northeast of the City of Ithaca and 46 miles north of the City of Binghamton.

Major highways serving the City include Interstate 81 as well as State highways #11, #13, #90 and #281. Transportation needs are met by various motor freight lines, Greyhound Bus Lines and various major airlines operating out of Syracuse Hancock International Airport and Tompkins County Airport in Ithaca. Greek Peak, Labrador and Song Mountain are three popular ski resorts located in the County.

The City, with a land area of 3.92 square miles, is the largest municipality in Cortland County and serves as the commercial hub for the residents in and around the City as well as the surrounding farm and dairy region. It is the County seat for Cortland County. The sale of locally produced milk, beef, maple syrup and cash crops within the County generates revenues in excess of \$45 million annually. Employment opportunities are afforded to City residents in the business and industries of the City or the surrounding Villages of Homer, Marathon, McGraw and Preble, or by commuting to the metropolitan areas of Syracuse, Ithaca or Binghamton. Major industries existing in and around the City include government, healthcare and social assistance, accommodation and food services, retail trade, and manufacturing.

Source: City officials.

Population Trends

	<u>City of Cortland</u>	<u>Cortland County</u>	<u>New York State</u>
1980	20,138	48,820	17,558,072
1990	19,801	48,963	17,990,455
2000	18,740	48,599	18,976,457
2010	19,204	49,336	19,378,102
2016 (Estimate)	18,795	48,070	19,745,289
2017 (Estimate)	18,698	47,786	19,849,399

Source: U.S. Census Bureau.

Major Employers

The following is a summary of the major non-manufacturing and manufacturing employers in the Cortland metropolitan area:

<u>Employer</u>	<u>Estimated Range of Number of Employees</u>
SUNY Cortland	500-999
Cortland Regional Medical Center	500-999
KIK Custom Products	500-999
Pall Trinity Micro / Pall Trinity	500-999
Intertek Testing Services	250-499
Suit-Kote Corporation	250-499
Gutchess Lumber	250-499
Square Deal Machining	250-499
Albany International	100-249
Pyrotek, Inc.	100-249
J.M. Murray Center	100-249
Crown Park Rehabilitation & Nursing Center	100-249
Greek Peak Mountain Resort (Seasonal)	100-249
Wal-Mart	100-249
Cortland Community Action Program	100-249
Manpower	100-249
Byrne Dairy	100-249
NBT Bank, N.A.	100-249
McNeil & Co. Insurance	100-249
Forkey Construction & Fabrication	100-249
Higgins Supply Co.	50-99
Cortland Cable	50-99
Cortland Plastics International	50-99
Ames Linen	50-99

Source: Cortland County Business Development Corporation/Industrial Development Agency.

Selected Wealth and Income Indicators

Per capita income statistics are available for the City, County and State. Listed below are select figures from the 2000 Census Reports, 2006-2010 and 2013-2017 American Community Survey 5 Year Estimates.

	<u>Per Capita Income</u>			<u>Median Family Income</u>		
	<u>2000</u>	<u>2006-2010</u>	<u>2013-2017</u>	<u>2000</u>	<u>2006-2010</u>	<u>2013-2017</u>
City of:						
Cortland	\$ 14,267	\$ 19,111	\$ 20,953	\$ 39,167	\$ 56,995	\$ 57,614
County of:						
Cortland	16,622	22,078	26,271	42,204	57,743	68,114
State of:						
New York	23,389	30,948	31,177	51,691	67,405	70,850

Note: 2014-2018 American Community Survey estimates are not available as of the date of this Official Statement.

Source: U.S. Census Bureau 2000 census report, and 2006-2010 and 2013-2017 American Community Survey data.

Unemployment Rate Statistics

Unemployment statistics are not available for the City as such. The smallest areas for which such statistics are available which include the City, are the Cortland, NY Micropolitan Statistical Area (MSA) and the County. The information set forth below with respect to the Cortland, NY MSA and the County is included for informational purposes only. It should not be inferred from the inclusion of such data in this Official Statement that the City is necessarily representative of the Cortland, NY MSA and/or the County, or vice versa.

	<u>Annual Averages</u>							
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Cortland, NY MSA	8.5%	8.6%	7.7%	6.5%	5.9%	5.7%	5.7%	5.3%
Cortland County	8.5	8.6	7.7	6.5	5.9	5.7	5.9	5.3
New York State	8.3	8.5	7.7	6.3	5.3	4.9	4.7	4.1

	<u>Monthly Figures</u>											
	<u>2018</u>						<u>2019</u>					
	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
Cortland, NY MSA	6.0%	4.5%	5.1%	4.9%	4.4%	3.9%	3.6%	3.9%	4.9%	6.2%	N/A	N/A
Cortland County	6.0	4.5	5.1	4.9	4.4	3.9	3.6	3.9	4.9	6.2	N/A	N/A
New York State	4.0	3.7	4.1	4.2	4.0	3.6	3.6	3.5	3.9	4.6	N/A	N/A

Note: Unemployment rates for January and February 2019 are unavailable as of the date of this Official Statement.

Source: Department of Labor, State of New York. (Note: Figures not seasonally adjusted).

Economic Development

Resident Labor Force

The labor force is comprised of residents who are age 16 and older and employed or not working but looking for work. In 2000, there were 24,000 people in the labor force in Cortland County. By 2017, the size of the labor force was at 23,100, a decline of 3.8%. This parallels a similar decline throughout the Central New York region due to a stagnant and aging population.

Unemployment rates in Cortland County are typically higher than those in New York State as a whole. From 2000 through 2017, the annual rate of unemployment ranged from 1.2 percentage points above to 0.6 percentage points below the state average. Unemployment has improved throughout the Central New York region since the end of the last recession.

Commutation Patterns

Approximately 45% of employed residents living in the City of Cortland work in Cortland County. Most hold jobs in the City of Cortland or the Town of Cortlandville. Nearly 16% of city residents commute to jobs in Tompkins County, while 8.7% commute to Onondaga County. Other employment destinations include Broome, Oneida, and Monroe counties. Although most city residents commute relatively short distances, one in five travels more 50 miles from home to work.

As the seat of County government, the location of SUNY Cortland, and a commercial center, the City of Cortland draws workers from a large geographic area. Only 22.5% of jobs in the City are held by individuals who also live in the City. More than 31% of jobs are held by individuals who reside in other parts of Cortland County. Workers also commute into the City from Tompkins, Onondaga, Broome, and Cayuga counties, among others. Notably, the City of Cortland has a net worker inflow of 1,725, as more individuals commute into the City than leave for jobs elsewhere.

Contrary to the local perception that in-commutation is only a factor at Cortland Regional Medical Center and SUNY Cortland, local construction and manufacturing employers also rely on labor from outside Cortland County. More than 35% of workers in goods-producing industries in the city are from outside Cortland County, including Tompkins, Broome, and Onondaga counties.

Employment Trends

From a long-term perspective, total employment across all sectors has increased, from 17,965 in 2000 to 18,366 in 2017, a net gain of 400 jobs (+2.2%). There has not been much sustained growth, however, as total employment peaked at 18,455 in 2001 and did not again exceed 18,000 until 2014. Private sector employment in Cortland County declined by 1.3% between 2000 and 2017.

Total employment in the Central New York region declined by approximately 10,000 jobs from 2000 to 2017, a net loss of 2.8%. Although the region is made up of five counties, including Cortland, 71% of the jobs in the region are in Onondaga County. Cortland County has a 5% share of regional employment.

In 2000, Cortland County had 1,018 private employers, or 5.7% of all private-sector businesses in the region. The County had the same number in 2017, but there were some significant shifts: several industry sectors, such as manufacturing, transportation and warehousing, and wholesale and retail trade lost businesses, while the number of establishments in the construction and accommodation and food services industries increased. Similar trends occurred at the regional level.

Tourism

Tourism is a key economic driver in Cortland County, generating an estimated \$71.9 million in spending and supporting nearly 1,900 jobs in 2017. Although visitor spending is far less than in neighboring Tompkins County (\$216.2 million), it has risen incrementally every year, and current initiatives offer opportunities for growth.

Due to its location in the center of New York State, Cortland has a history of hosting sporting events, starting with the 2002 Empire State Games. It hosts approximately 30 events per year, from high school soccer and lacrosse championships and volleyball tournaments to adult competitions like the FASNY Winter Games. In June, SUNY Cortland is the site of the annual Empire State Senior Games, a week-long event that draws approximately 1,200 participants and spectators. The Cortland Regional Sports Council (CRSC) is responsible for promoting Cortland County for sports events, which generate significant demand for hotel rooms and impact local businesses.

In coordination with the CRSC, the Town of Cortlandville is currently building the first phase of a proposed sports complex along Route 13 to be known as Gutchess Park Sports Complex. The project will create a state-of-the-art outdoor recreational facility capable of hosting large-scale tournaments. Easily accessible from I81 and close to hotels, restaurants, and shopping, the complex is expected to take sports tourism in Cortland County to the next level.

Funded in part by Empire State Development, Phase 1 of the complex is expected to include site work, infrastructure, parking, two turf baseball fields and restrooms. Future phases call for the construction of two additional baseball fields and a minimum of four multi-purpose fields for soccer, football, and lacrosse. Other amenities, subject to funding availability, may include multi-use trails, picnic shelters and links to adjacent recreational facilities (e.g., mini-golf).

Currently, there are about a dozen hotels, motels, and other types of accommodations in the City of Cortland, most situated near the I-81 interchanges. Four new hotels have opened within the last 15 years, though there are fewer bed-and-breakfasts in the City than there used to be. Some large, historic homes in the Southeast Cortland Study Area may have potential for reuse as B&B properties. Downtown Cortland is served by three low-budget motels that offer limited services and amenities. Local tourism professionals report that a market analysis was completed for a potential boutique hotel in Cortland about a year ago; the study concluded, however, that occupancy rates would be insufficient to support the financing required.

Economic Developments

The City has experienced several economic development projects over the past years that have resulted in favorable impacts on the local and regional economy. The following is a brief summary of those projects and other developments:

The Cortland Commerce Center, located in the 400,000 square foot former Smith Corona facility on the Route 13 corridor in south Cortland, is occupied to near capacity. It is home to 20 companies employing around 225 people in a unique mix of retail, commercial and manufacturing enterprises.

The State University of New York at Cortland's overall growth in recent years has spurred \$200 million in new, in process, and planned construction and renovation projects, the biggest construction boom on campus in over 50 years. Completed projects include a new \$14 million stadium complex, construction of a \$56 million Student Life Center which was completed in spring 2015, and renovations to various dormitory and other facilities. Construction of a \$21 million residence hall recently broke ground and there are plans for a \$43 million addition and renovation project for an existing academic building.

The City of Cortland was selected in October 2017 as the winners of the \$10 million Downtown Revitalization Initiative in Central New York. In partnership with the NYS Secretary of State and Cameron Engineering & Associates, LLP of New York City, the process to develop an investment plan that leverages the \$10 million with private sector development funds and other State and Federal assistance has commenced. The investment plan was submitted to the Governor's office in the spring of 2018. \$15.9 million will be allocated to the redevelopment of publicly owned property located in the downtown core.

Cortland Plastics International doubled the size of its 55,000 square foot facility in 2016, and is currently undertaking a \$500,000 expansion program that includes the purchase of additional machinery. Ten new employees have been hired as a result, with additional hiring anticipated in the foreseeable future.

McNeil & Co., a risk management insurance company and one of the City's largest taxpayers, is in the process of completing a \$7.2 million expansion that involves the renovation of 65,000 square feet of space within the City. The project is expected to create 100 new positions over the next several years.

Developer David Yaman has started construction of an \$8 million, 35,000-square foot facility at the Cortland Commerce Center in Cortlandville to accommodate an expansion of Cortland Cable's medical device manufacturing operations. The new building, which was completed in 2018, will be leased to a division of Actuant (the parent company of Cortland Cable). The operation is expected to create 23 new jobs over the next two years, with up to 50 jobs created within 5 years. Developer David Yaman has additionally completed a \$13 million rehabilitation of a former industrial building on Main Street. Called 'Crescent Commons,' the building is not a mixed-use complex with occupancy at 80%.

Square Deal Machining completed an expansion of its facility in Marathon in 2015. The \$1 million project included building renovations, equipment acquisition and the construction of 17,000 square feet of new space to accommodate growing business. The company also expanded its workforce.

Byrne Dairy opened a \$30 million yogurt manufacturing plant in Cortlandville in 2014. Headquartered in Syracuse, the company operates four dairy processing plants in central New York. Its production facilities, distribution centers and convenience stores together employ over 2,300 people. Future plans are to develop a visitor center on the Cortlandville site where the public can view the manufacturing process.

As the U.S. health care industry continues to consolidate due to reductions in federal Medicaid and Medicare spending, local service providers have been making changes to remain competitive while strengthening access to quality care. In September 2017, Cortland Regional Medical Center announced plans to affiliate with Guthrie, a health care system serving 11 counties in north-central Pennsylvania and New York's Southern Tier. Anticipated benefits of the agreement, which is expected to be finalized by 2019, include \$41 million in infrastructure and electronic records upgrades over five years and access to advanced health care through the world-renowned Mayo Clinic. Local control of the Cortland hospital and nursing facility would continue, with no cuts in services for at least ten years

Form of City Government

The governing board of the City is the Common Council (the "Common Council"), comprised of an elected Mayor and eight Aldermen elected from their respective wards. The Mayor and all Aldermen are elected for two-year concurrent terms. The City's Director of Administration and Finance and the City's Corporation Counsel are appointed by the Mayor with the approval of the Common Council.

Financial Organization

The Director of Administration and Finance is the Chief Fiscal Officer of the City, and is responsible for the receiving and collecting of funds. It is the responsibility of the Director of Administration and Finance to disburse and account for all financial transactions.

Budgetary Procedures

The Director of Administration and Finance assembles a budget each year based on estimates submitted by department heads which is reviewed by the Budget Committee of the Common Council. The Mayor then submits a budget, for the calendar year, to the Common Council by December 1. A public hearing must be held prior to adoption of the budget. The Common Council must adopt a budget by December 31. The budget is not subject to voter approval.

Investment Policy

Pursuant to the statutes of the State of New York, the City is permitted to invest only in the following investments: (1) special time deposits or certificates of deposits in a bank or trust company located and authorized to do business in the State of New York; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by any New York municipality or district corporation, other than the City; (6) obligations of a New York public corporation which are made lawful investments by the City pursuant to another provision of law; (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York; and, (8) in the case of City moneys held in certain reserve funds established pursuant to law, obligations issued by the City. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law.

Consistent with the above statutory limitations, it is the City's current policy to invest in: (1) certificates of deposit or time deposit accounts that are fully secured as required by statute, (2) obligations of the United States of America or (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America. In the case of obligations of the United States government, the City may also purchase such obligations pursuant to a written repurchase agreement that requires the purchased securities be delivered to a third-party custodian bank or trust company.

State Aid

The City receives financial assistance from the State. In its budget for the 2019 fiscal year, approximately 15.83% of the operating revenues of the City were received from the State as State aid. The State is not constitutionally obligated to maintain or continue State aid to the City and no assurance can be given that present State aid levels will be maintained in the future. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the City, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures. Furthermore, if a significant default or other financial crisis should occur in the affairs of New York State or any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, could be adversely affected.

There can be no assurance that the State appropriation for State aid to cities will be continued in future years, either pursuant to existing formulas or any form whatsoever. State aid appropriated and apportioned to the City can be paid only if the State has such monies available therefore. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget or their elimination therefrom.

While the City has received State aid in recent years, both the determination of the amount of State aid and the apportionment of State aid are legislative acts and the State Legislature may amend or repeal the chapter relating to State aid and the formulas which determine the amount of State aid payable to the City. The current or future financial condition of the State may affect the amount of State aid appropriated by the State Legislature.

Employees

The City provides services through approximately 186 employees, 139 of which are represented by six labor organizations. Membership of each and expiration dates are as follows:

<u>Union</u>	<u>Approximate Number of Employees</u>	<u>Contract Expiration Dates</u>
Cortland Paid Firefighters Association	34	December 31, 2019
Cortland Police Benevolent Association	41	December 31, 2020
CSEA Local 1000	27	December 31, 2019
City of Cortland School Crossing Guards	20	December 31, 2019
Service Employees International Union	10	December 31, 2019
Professional Wastewater Operators Associates	7	December 31, 2019

Source: City officials.

Status and Financing of Employee Pension Benefits

Substantially all employees of the City are members of the New York State and Local Employees' Retirement System ("ERS") or the New York State and Local Police and Fire Retirement System ("PFRS"; with ERS, the "Retirement Systems"). The ERS is generally also known as the "Common Retirement Fund". The Retirement Systems are cost-sharing multiple public employer retirement systems. The obligation of employers and employees to contribute and the benefit to employees are governed by the New York State Retirement System and Social Security Law (the "Retirement System Law"). The Retirement Systems offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after five years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement Systems.

The ERS is non- contributory with respect to members hired prior to July 27, 1976 (Tier 1 & 2); members hired from July 27, 1976 through December 31, 2009 (Tier 3 & 4) contribute 3% for the first 10 years of service and then become non-contributory; members hired from January 1, 2010 through March 31, 2012 (Tier 5) must contribute 3% for their entire careers; members hired April 1, 2012 (Tier 6) or after will contribute between 3 and 6 percent for their entire careers based on their annual wage.

The PFRS is non- contributory with respect to members hired prior to January 8, 2010 (Tier 1, 2 & 3); members hired from January 9, 2010 through March 31, 2012 (Tier 5) must contribute 3% for their entire careers; members hired April 1, 2012 (Tier 6) or after will contribute between 3 and 6 percent for their entire careers based on their annual wage.

For both ERS & PFRS, Tier 5 provides for:

- Raising the minimum age at which most civilians can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62.
- Requiring employees to continue contributing 3% of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw pension from 5 years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police & firefighters at 15% of non-overtime wages.

For both ERS & PFRS, Tier 6 provides for:

- Increase in contribution rates of between 3% and 6% base on annual wage.
- Increase in the retirement age from 62 years to 63 years.
- A readjustment of the pension multiplier.
- A change in the period for final average salary calculation from 3 years to 5 years.

The City's contributions to ERS and PFRS since 2014 are as follows:

<u>Year</u>	<u>ERS</u>	<u>PFRS</u>
2014	\$ 580,997	\$ 1,536,601
2015	535,959	1,450,535
2016	481,641	1,384,729
2017	495,257	1,438,294
2018	493,263	1,390,513
2019 (Budgeted)	483,263	1,390,573

Source: City officials.

Pursuant to various laws enacted between 1991 and 2002, the State Legislature authorized local governments to make available certain early retirement incentive programs to its employees. The City does not currently offer any early retirement incentives.

Historical Trends and Contribution Rates: Historically there has been a State mandate requiring full (100%) funding of the annual actuarially required local governmental contribution out of current budgetary appropriations. With the strong performance of the Retirement System in the 1990s, the locally required annual contribution declined to zero. However, with the subsequent decline in the equity markets, the pension system became underfunded. As a result, required contributions increased substantially to 15% to 20% of payroll for the employees' and the police and fire retirement systems, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments.

A chart of average ERS and PFRS rates (2016 to 2020) is shown below:

<u>Year</u>	<u>ERS</u>	<u>PFRS</u>
2016	18.2%	24.7%
2017	15.5	24.3
2018	15.3	24.4
2019	14.9	23.5
2020	14.6	23.5

Chapter 49 of the Laws of 2003 amended the Retirement and Social Security Law and Local Finance Law. The amendments empowered the State Comptroller to implement a comprehensive structural reform program that establishes a minimum contribution for any employer equal to 4.5% of pensionable salaries for required contributions due December 15, 2003 and for all years thereafter where the actual rate would otherwise be 4.5% or less. In addition, it instituted a billing system that will advise employers over one year in advance concerning actual pension contribution rates.

Chapter 57 of the Laws of 2010 (Part TT) amended the Retirement and Social Security Law to authorize participating local government employers, if they so elect, to amortize an eligible portion of their annual required contributions to both ERS and PFRS, when employer contribution rates rise above certain levels. The option to amortize the eligible portion began with the annual contribution due February 1, 2011. The amortizable portion of an annual required contribution is based on a "graded" rate by the State Comptroller in accordance with formulas provided in Chapter 57. Amortized contributions are to be paid in equal annual installments over a ten-year period, but may be prepaid at any time. Interest is to be charged on the unpaid amortized portion at a rate to be determined by State Comptroller, which approximates a market rate of return on taxable fixed rate securities of a comparable duration issued by comparable issuers. The interest rate is established annually for that year's amortized amount and then applies to the entire ten years of the amortization cycle of that amount. When in any fiscal year, the participating employer's graded payment eliminates all balances owed on prior amortized amounts, any remaining graded payments are to be paid into an employer contribution reserve fund established by the State Comptroller for the employer, to the extent that amortizing employer has no currently unpaid prior amortized amounts, for future such use.

The City is not amortizing or smoothing any pension payments, nor does it intend to do so in the foreseeable future.

The investment of monies and assumptions underlying same, of the Retirement Systems covering the City's employees is not subject to the direction of the City. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALs"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the City which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

Other Post-Employment Benefits

Healthcare Benefits. School districts and boards of cooperative educational services, unlike other municipal units of government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retirees below the level of benefits or contributions afforded to or required from active employees since the implementation of Chapter 729 of the Laws of 1994. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of this date. Nevertheless, many such retirees of all varieties of municipal units in the State do presently receive such benefits.

OPEB. Other Post-Employment Benefits ("OPEB") refers to "other post-employment benefits," meaning other than pension benefits, disability benefits and OPEB consist primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements.

GASB 75. GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending December 31, 2018. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The City was required to adopt the provisions of Statement No. 75 for the year ending December 31, 2018.

GASB 45. Prior to GASB 75, GASB Statement No. 45 ("GASB 45") required municipalities and school districts to account for OPEB liabilities much like they already accounted for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB 27, which covered accounting for pensions, GASB 45 did not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") was determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 did not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC.

The City engaged the services of Armory Associates LLC, an actuary firm, to provide the services required under GASB 45. The following tables show the components of the City's annual OPEB cost, the amount actuarially contributed to the plan, changes in the City's net OPEB obligation and funding status for the fiscal years ending December 31, 2016 and 2017.

<i>Annual OPEB Cost and Net OPEB Obligation:</i>	<u>2016</u>	<u>2017</u>
Annual required contribution (ARC)	\$ 7,036,798	\$ 7,509,775
Interest on net OPEB obligation	953,612	1,122,825
Adjustment to ARC	<u>(1,735,641)</u>	<u>(2,108,852)</u>
Annual OPEB cost (expense)	6,254,769	6,523,748
Contributions made	<u>(1,420,106)</u>	<u>(1,549,763)</u>
Increase in net OPEB obligation	4,834,663	4,973,985
Net OPEB obligation - beginning of year	<u>27,246,051</u>	<u>32,080,714</u>
Net OPEB obligation - end of year	<u>\$ 32,080,714</u>	<u>\$ 37,054,669</u>
Percentage of annual OPEB cost contributed	22.7%	23.8%
<i>Funding Status:</i>	<u>2016</u>	<u>2017</u>
Actuarial Accrued Liability (AAL)	\$ 67,364,623	\$ 70,897,588
Actuarial Value of Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 67,364,623</u>	<u>\$ 70,897,588</u>
Funded Ratio (Assets as a Percentage of AAL)	0.0%	0.0%

Source: GASB 45 Other Post-employment Benefits Actuarial Valuation for the Fiscal Year Ending December 31, 2017. The above tables are not audited.

There is no authority in current State law to establish a trust account or reserve fund for this liability. The City has reserved \$0 towards its OPEB liability. The City funds this liability on a pay-as-you-go basis.

Actuarial Valuations are required every 2 years for OPEB plans with more than 200 members, every 3 years if there are less than 200 members.

In April 2015, the State Comptroller announced legislation to create an optional investment pool to help the State and local governments fund retiree health insurance and other post-employment benefits. The proposed legislation would allow the following:

- Authorize the creation of irrevocable OPEB trusts, not part of the New York State Common Retirement Fund, so that New York state and its local governments can, at their option, help fund their OPEB liabilities;
- Establish an OPEB investment fund in the sole custody of the State Comptroller for the investment of OPEB assets of the state and participating eligible local governments;
- Designate the president of the Civil Service Commission as the trustee of the state's OPEB trust and the governing boards as trustee for local governments; and
- Allow school districts to transfer certain excess reserve balances to an OPEB trust once it is established.

Under the State Comptroller's proposal, there are no restrictions on the amount a government can deposit into the trust. The proposed legislation was not enacted into law in the last two legislative sessions. It is not possible to predict whether the Comptroller's proposed legislation will be reintroduced or enacted if introduced.

Other Information

The statutory authority for the power to spend money for the object or purpose, or to accomplish the object or purpose for which the Notes are to be issued, is the City Law and the Local Finance Law.

No principal or interest upon any obligation of this City is past due.

The fiscal year of the City is January 1 through December 31.

Except for as shown under "STATUS OF INDEBTEDNESS – Estimated Overlapping Indebtedness", this Official Statement does not include the financial data of any political subdivision having power to levy taxes within the City.

Financial Statements

The City retains an independent certified public accountant firm for a continuous independent audit of all financial transactions of the City. The financial affairs of the City are also subject to annual audits by the State Comptroller. The last independent audit covers the fiscal year ending December 31, 2017, and is attached hereto as "APPENDIX – D".

The City complies with the Uniform System of Accounts as prescribed for towns in New York State by the State Comptroller. This System differs from generally accepted accounting principles as prescribed by the American Institute of Certified Public Accountants' Industry Audit Guide, "Audits of State and Local Governmental Units", and codified in Government Accounting, Auditing and Financial Reporting (GAAFR), published by the Governmental Accounting Standards Board (GASB).

Beginning with the fiscal year ending December 31, 2003, the City is required to issue its financial statements in accordance with GASB Statement No. 34. This statement includes reporting of all assets including infrastructure and depreciation in the Government Wide Statement of Activities, as well as the Management's Discussion and Analysis. The City hired an outside consultant to assist in implementation of GASB 34, inclusive of a physical review and documentation of all assets owned by the City. The City is currently in full compliance with GASB 34.

Unaudited Results for the Fiscal Year Ending December 31, 2018

Summary unaudited information for the General Fund for the period ending December 31, 2018 is as follows:

Revenues:	\$ 22,369,901
Expenditures:	<u>22,237,666</u>
Excess (Deficit) Revenues Over Expenditures:	\$ <u>132,235</u>
Total Fund Balance:	\$ 4,687,627

Note: These projections are based upon certain current assumptions and estimates, and the audited results may vary therefrom.

New York State Comptroller Reports of Examination

The State Comptroller's office, i.e., the Department of Audit and Control, periodically performs a compliance review to ascertain whether the City has complied with the requirements of various State and Federal statutes. These audits can be found by visiting the Audits of Local Governments section of the Office of the State Comptroller website.

The State Comptroller's office released an audit report of the City on December 23, 2010. The purpose of the audit was to evaluate the City's financial condition for the period January 1, 2008, through August 6, 2009. The State Comptroller's office conducted a follow up of the 2010 audit report in August 2012 to review corrective action of the Comptroller's recommendations. The recommendations and the status of the City's corrective action as of August 24, 2012 are summarized below.

Internal Controls

Recommendation 1 – Policy Development to Strengthen Control Environment

The Common Council and City officials should take immediate action to strengthen the City's control environment by developing policies and procedures for payroll, cash receipts, and IT to properly control and monitor City operations.

Status of Corrective Action: Not Implemented

Recommendation 2 – Policy Monitoring and Enforcement

As the policies are developed, the Common Council should adopt and enforce them to ensure that City operations are properly controlled and monitored on a continual basis.

Status of Corrective Action: Not Implemented

Recommendation 3 – Enforcement of Collective Bargaining Agreements and Resolutions

The Common Council should enforce all CBAs and the Resolution governing salary and benefits for employees not specifically covered by the CBAs.

Status of Corrective Action: Fully Implemented

Recommendation 4 – Policies and Procedures Governing Payroll

The Common Council should develop policies and procedures for payroll that include requirements for the maintenance of consistent, centralized records to document employees' leave.

Status of Corrective Action: Not Implemented

Recommendation 5 – Separation Payments

The Common Council should review and approve all future separation payments to ensure that amounts are calculated in accordance with CBAs and supported by records that are independent of the employees' records.

Status of Corrective Action: Fully Implemented

Recommendation 6 – Cash Receipt Controls

City officials should completely redesign internal controls over cash receipts, with written policies and procedures, a proper segregation of duties, and procedures to establish a clear trail of cash from receipt to deposit.

Status of Corrective Action: Not Implemented

Recommendation 7 – Cash Receipt Software

The Common Council should require the network administrator to update the cash receipts software related to data input, information detail, accuracy, and reporting capability to facilitate compliance with the redesigned controls over cash receipts.

Status of Corrective Action: Not Implemented

Recommendation 8 – Network Configuration

The Common Council should establish policies and procedures to provide direction for the configuration of the City's network and security of the City's IT resources and data.

Status of Corrective Action: Not Implemented

Recommendation 9 – Network Functionality

The network administrator should assess the current network configuration and improve the functionality to enhance security and connectivity among City users.

Status of Corrective Action: Partially Implemented

Financial Condition

Recommendation 1 – Financial Information

The Common Council should demand current and reliable financial information for use in monitoring City finances and preparing budgets.

Status of Corrective Action: Fully Implemented

Recommendation 2 – Accurate Budgets

The Common Council should adopt budgets that accurately estimate revenues, expenditures, and available fund balance and then monitor actual activity against the budget throughout the year.

Status of Corrective Action: Fully Implemented

Recommendation 3 – Budgetary Controls

The Common Council should implement a system to ensure that expenditures are within budgetary amounts. Upgrades to the accounting system and the implementation of encumbrance and purchase order system can accomplish this.

Status of Corrective Action: Partially Implemented

Recommendation 4 – Financial Monitoring

The Common Council should continuously monitor the City's finances, including cash and inter-fund borrowings, to reestablish a positive fund balance and correct cash flow deficiencies.

Status of Corrective Action: Fully Implemented

Recommendation 5 – Municipal Cooperation

City officials should contact the County and explore cooperation opportunities to share information technologies services like Internet, phone systems, and accounting software sharing.

Status of Corrective Action: Fully Implemented

Recommendation 6 – Centralizing Business Functions

The Common Council should centralize key business functions to improve monitoring and control of activities and potentially achieve cost savings.

Status of Corrective Action: Not Implemented

A Copy of the complete report and response can be found via the website of the office of the New York State Comptroller.

There are no other recent State Comptroller's audits of the City, nor any that are currently in progress or pending release

Note: Reference to website implies no warranty of accuracy of information therein.

The State Comptroller's Fiscal Stress Monitoring System

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school district and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school district's ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the State Comptroller. Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress", in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation". Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The reports of the State Comptroller for the past five years for the City are as follows:

<u>Fiscal Year Ending In</u>	<u>Stress Designation</u>	<u>Fiscal Score</u>
2017	No Designation	42.1%
2016	No Designation	23.8%
2015	No Designation	25.4%
2014	No Designation	28.8%
2013	No Designation	22.1%

Source: Website of the Office of the New York State Comptroller.

Note: Reference to website implies no warranty of accuracy of information therein.

TAX INFORMATION

Taxable Valuations

<u>Years Ending December 31:</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Assessed Valuation	\$ 525,593,706	\$ 525,416,074	\$ 526,170,997	\$ 527,433,775	\$ 527,784,034
New York State Equalization Rate	100.00%	98.00%	97.00%	94.00%	93.00%
Full Valuation	\$ 525,593,706	\$ 536,138,851	\$ 542,444,327	\$ 561,099,760	\$ 567,509,714

Tax Rate per \$1,000 (Assessed)

<u>Years Ending December 31:</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General City	\$ 15.58	\$ 15.58	\$ 15.83	\$ 16.16	\$ 16.72

Tax Collection Procedure

The City is responsible for the collection of the County taxes levied within the City and its own taxes, both current and delinquent. The City also collects the Cortland City School District (the “School District”) delinquent taxes and pays them to the School District as collected up to the date of tax sale. The City then makes the School District whole for those parcels located within the City in the fiscal year of the School District following the year of original levy.

Tax payments are due one-half from February 1-28 and one-half from August 1-31 in a given fiscal year. For the first installment, taxes remaining unpaid after March 1, 5% is added on the first half, increasing 1% per month for the remainder of the first half. On the second installment, a charge of 2-1/2% is imposed from March 1st to August 31st, increasing 5% on September 1st and 1% per month thereafter.

Commencing January 1, 2007, the City has incorporated an in rem process to their tax collection procedure. After three years delinquent the City may now auction properties for unpaid taxes. As a result of this process, the City realized a significant increase in collections.

Tax Levy and Tax Collection Record

<u>Years Ending December 31:</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Tax Levy ⁽¹⁾	\$ 16,900,196	\$ 17,035,749	\$ 17,206,052	\$ 17,940,111	\$ 18,006,232
Amount Uncollected as of December 31 ⁽²⁾	617,576	581,503	690,990	17,068,240	N/A
% Uncollected	3.7%	3.4%	4.0%	4.9%	N/A

⁽¹⁾ Includes City and County levy less adjustments to tax roll.

⁽²⁾ See “Tax Collection Procedure”.

Larger Taxpayers – 2018 Tax Roll for 2019

<u>Name</u>	<u>Type</u>	<u>Full Valuation</u>
NYS Electric & Gas Corporation	Utility	\$ 12,036,845
Niagara Mohawk Power Corporation	Utility	8,407,349
Lady Jane Hotels Corp.	Hotel / Restaurant	6,332,600
Joseph Armideo	Apartments	6,141,380
Cortland Property NY, LLC	Nursing Home	5,825,900
Central Avenue Properties	Industrial	4,597,100
McNeil Development Corp. LLC	Commercial	4,160,400
Salt City Development Co., LLC	Commercial	4,151,000
DeVechhio Family LLC	Apartments	3,502,500
2 River Street Realty LLC	Motel/Restaurant	3,430,000

The larger taxpayers listed above have a total full valuation of \$58,585,074, which represents 10.32% of the tax base of the City.

As of the date of this Official Statement, the City does not have any pending or outstanding tax certioraris that are known or believed could have a material impact on the finances of the City.

Source: City tax rolls.

Sales Tax

An indicator of the strength of the local economy is sales tax revenue. That revenue source for the City has remained stable, as shown on the following chart:

2011	\$ 4,821,198
2012	4,919,028
2013	4,854,972
2014	5,108,637
2015	4,941,842
2016	4,839,066
2017	5,056,080
2018	6,216,495
2019 (Budgeted)	5,050,378

Sales tax is not only a significant source of revenue, but has also become a reliable barometer of the local economy.

The City and County entered into a sales tax sharing renewal agreement covering the period January 1, 2013 through December 31, 2017. For the year beginning on January 1, 2013, the City's share remained at 18.24%, the same as 2012. However, in 2014 it went down to 18.115%, in 2015 to 17.99%, in 2016 to 17.865%, and in 2017 to 17.615%. Unlike previous agreements, this agreement was tied to the County's debt service payment for an Inter-Operable Radio System. The County-wide system was in response to a requirement by the State to standardize emergency radio communications for quicker response time. The debt service payment for any debt related to the lease, construction and/or implementation of the radio system will be deducted from the sales tax collected before it is distributed to the towns and villages.

The City and County entered into a sales tax sharing renewal agreement covering the period January 1, 2019 through December 31, 2019. The City's share is 17.75%. Under the agreement, the County deducts \$1.5 million from the gross receipts and distributes the net.

Constitutional Tax Margin

Computation of the Constitutional Tax Margin for the fiscal years ending December 31, 2017 through 2019 is as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Five-Year Average Full Valuation.....	\$ 530,292,970	\$ 537,725,783	\$ 546,458,767
Tax Limit - (2%).....	10,605,859	10,754,516	10,929,175
Add: Exclusions from Tax Limit	<u>788,015</u>	<u>767,854</u>	<u>1,020,841</u>
Total Taxing Power	\$ 11,393,874	\$ 11,522,370	\$ 11,950,016
Less: Total Levy	<u>8,326,921</u>	<u>8,523,105</u>	<u>8,814,578</u>
Tax Margin	<u>\$ 3,066,953</u>	<u>\$ 2,999,265</u>	<u>\$ 3,135,438</u>

Additional Tax Information

Real property located in the City is assessed by the City.

Veterans' and senior citizens' exemptions are offered to those who qualify.

The estimated total annual property tax bill of a \$100,000 market value residential property located in the City is approximately \$5,066 including County, City and City School District taxes.

The City assessment roll is estimated to be constituted as follows: 65% residential; 30% commercial and 5% industrial.

TAX CAP LAW

Chapter 97 of the Laws of 2011, as amended (the "Tax Levy Limitation Law") applies to virtually all local governments, including school districts (with the exception of New York City, Yonkers, Syracuse, Rochester and Buffalo, the latter four of which are indirectly affected by applicability to their respective city). It also applies to independent special districts and to town and county improvement districts as part of their parent municipalities tax levies.

The Tax Levy Limitation Law restricts, among other things, the amount of real property taxes (including assessments of certain special improvement districts) that may be levied by or on behalf of a municipality in a particular year, beginning with fiscal years commencing on or after January 1, 2012. It expires on June 15, 2020 unless extended. Pursuant to the Tax Levy Limitation Law, the tax levy of a municipality cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the consumer price index ("CPI"), over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases due to changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. A municipality may exceed the tax levy limitation for the coming fiscal year only if the governing body of such municipality first enacts, by at least a sixty percent vote of the total voting strength of the board, a local law (resolution in the case of fire districts and certain special districts) to override such limitation for such coming fiscal year only. There are exceptions to the tax levy limitation provided in the Tax Levy Limitation Law, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, the Police and Fire Retirement System, and the Teachers' Retirement System. Municipalities are also permitted to carry forward a certain portion of their unused levy limitation from a prior year. Each municipality prior to adoption of each fiscal year budget must submit for review to the State Comptroller any information that is necessary in the calculation of its tax levy for each fiscal year.

The Tax Levy Limitation Law does not contain an exception from the levy limitation for the payment of debt service on either outstanding general obligation debt of municipalities or such debt incurred after the effective date of the Tax Levy Limitation Law (June 24, 2011).

While the Tax Levy Limitation Law may constrict an issuer's power to levy real property taxes for the payment of debt service on debt contracted after the effective date of said Tax Levy Limitation Law, it is clear that no statute is able (1) to limit an issuer's pledge of its faith and credit to the payment of any of its general obligation indebtedness or (2) to limit an issuer's levy of real property taxes to pay debt service on general obligation debt contracted prior to the effective date of the Tax Levy Limitation Law. Whether the Constitution grants a municipality authority to treat debt service payments as a constitutional exception to such statutory tax levy limitation outside of any statutorily determined tax levy amount is not clear.

Real Property Tax Rebate

Chapter 59 of the Laws of 2014 ("Chapter 59"), a newly adopted State budget bill includes provisions which provide a refundable personal income tax credit to real property taxpayers in school districts and certain municipal units of government. Real property owners in school districts are eligible for this credit in the 2014 and 2015 taxable years of those property owners. Real property taxpayers in certain other municipal units of government are eligible for this credit in the 2015 and 2016 taxable years of those real property taxpayers. The eligibility of real property taxpayers for the tax credit in each year depends on such jurisdiction's compliance with the provisions of the Tax Levy Limitation Law. School districts budgets must comply in their 2014-2015 and 2015-2016 fiscal years. Other municipal units of government must have their budgets in compliance for their 2015 and 2016 fiscal years. Such budgets must be within the tax cap limits set by the Tax Levy Limitation Law for the real property taxpayers to be eligible for this personal income tax credit. The affected jurisdictions include counties, cities (other than any city with a population of one million or more and its counties), towns, villages, school districts (other than the dependent school districts of New York City, Buffalo, Rochester, Syracuse and Yonkers, the latter four of which are indirectly affected by applicability to their respective cities) and independent special districts.

Certain additional restrictions on the amount of the personal income tax credit are set forth in Chapter 59 in order for the tax cap to qualify as one which will provide the tax credit benefit to such real property taxpayers. The refundable personal income tax credit amount is increased in the second year if compliance occurs in both taxable years.

For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers is additionally contingent upon adoption by the school district or municipal unit of a state approved "government efficiency plan" which demonstrates "three-year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies".

Municipalities, school districts and independent special districts must provide certification of compliance with the requirements of the new provisions to certain state officials in order to render their real property taxpayers eligible for the personal income tax credit.

While the provisions of Chapter 59 do not directly further restrict the taxing power of the affected municipalities, school districts and special districts, they do provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limitation Law. The implications of this for future tax levies and for operations and services of the City are uncertain at this time.

STATUS OF INDEBTEDNESS

Constitutional Requirements

The State Constitution limits the power of the City (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations in summary form, and as generally applicable to the City and the Notes include the following:

Purpose and Pledge. Subject to certain enumerated exceptions, the City shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The City may contract indebtedness only for a City purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose or, in the alternative (in the use of level debt service described below), the weighted average period of probable usefulness of the several purposes, for which it is contracted and in no event may this period exceed forty years. No installment may be more than fifty per centum in excess of the smallest prior installment unless the City authorizes and determines to issue debt amortizing on the basis of substantially level or declining annual debt service. The City is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and such required annual installments on its bonds and bond anticipation notes.

Debt Limit. The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional method for determining full valuation is by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the Office of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

Pursuant to Article VIII of the State Constitution and Title 9 of Article 2 of the Local Finance Law, the debt limit of the City is calculated by taking 7% of the latest five-year average of the full valuation of all taxable real property.

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the City to borrow and incur indebtedness by the enactment of the Local Finance Law subject, of course, to the provisions set forth above. The power to spend money, however, generally derives from other law, including specifically the City Law and the General Municipal Law.

Pursuant to the Local Finance Law, the City authorizes the issuance of bonds by the adoption of a bond resolution approved by at least two-thirds of the members of the City Common Council, the finance board of the City. Customarily, the Common Council has delegated to the Director of Administration & Finance, as chief fiscal officer of the City, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) Such obligations are authorized for a purpose for which the City is not authorized to expend money, or
- (2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations and an action contesting such validity is commenced within twenty days after the date of such publication, or,
- (3) Such obligations are authorized in violation of the provisions of the Constitution.

Except on rare occasions the City complies with this estoppel procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The Common Council, as the finance board of the City, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may, and generally does, delegate the power to sell the obligations to the Director of Administration & Finance, the chief fiscal officer of the City, pursuant to the Local Finance Law.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first of such notes and provided that such renewals do not exceed five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the City with power to issue certain other short-term general obligation indebtedness including revenue, tax and bond anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

Debt Outstanding End of Fiscal Year

<u>Fiscal Years Ending December 31:</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Bonds	\$ 10,115,000	\$ 8,695,000	\$ 7,930,000	\$ 10,026,712	\$ 8,538,000
EFC Bonds	0	0	11,102,734	10,772,734	10,460,000
Bond Anticipation Notes	3,185,500	4,821,500	4,977,000	3,033,400	4,078,639
Revenue Anticipation Notes	0	800,000	750,000	2,282,519	0
EFC Clean Water Facility Notes	1,845,748	4,417,031	0	0	0
Capital Notes ⁽¹⁾	<u>17,458</u>	<u>11,782</u>	<u>5,965</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 15,163,706</u>	<u>\$ 18,745,313</u>	<u>\$ 24,765,699</u>	<u>\$ 26,115,365</u>	<u>\$ 23,076,639</u>

⁽¹⁾ State Loan Emergency Services for Revolving Loan Fund ("ESRLF").

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the City as of March 18, 2019:

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Amount</u>
<u>Bonds</u>	2019-2046	\$ 18,463,000
<u>Bond Anticipation Notes</u>		
Various Improvements	November 29, 2019	978,039
Wastewater Treatment Plant Improvements	April 12, 2019	<u>3,100,000</u> ⁽¹⁾
Total Indebtedness		<u>\$ 22,541,039</u>

⁽¹⁾ To be renewed with the proceeds of the Notes.

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Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin as of March 18, 2019:

Five-Year Average Full Valuation of Taxable Real Property	\$ 546,557,272
Debt Limit - 7% thereof	39,259,009

Inclusions:

Bonds	\$ 18,463,000
Bond Anticipation Notes	4,078,039
Total Inclusions	<u>\$ 22,541,039</u>

Exclusions:

Water Bonds ⁽¹⁾	\$ 746,145
Sewer ⁽²⁾	12,905,000
Appropriations	441,975
Total Exclusions	<u>\$ 14,093,120</u>

Total Net Indebtedness Subject to Debt Limit	<u>\$ 8,447,919</u>
Net Debt-Contracting Margin	<u>29,811,090</u>
Percent of Debt Contracting Power Exhausted	22.08%

(1) Water Debt is excluded pursuant to Article VIII, Section 5B of the New York State Constitution.

(2) Sewer Debt is excluded pursuant to Section 124.10 of the Local Finance Law

(3) Appropriations are excluded pursuant to Section 136.00 of the Local Finance Law.

Notes:

Revenue anticipation notes are not included in the calculation of inclusions for the City's debt statement.
The issuance of the Notes will not increase the net indebtedness of the City.

Bonded Debt Service

A schedule of bonded debt service may be found in "APPENDIX – B" to this Official Statement.

Cash Flow Borrowings

The City has not found it necessary to borrow tax anticipation notes in the past. The outstanding Revenue Anticipation Notes (RANs) were issued in anticipation of the receipt of State grants in aid for marketing the snow industry in and around the City. The RANs are planned to be retired at their maturity with State grants-in-aid. The City did not issue a revenue anticipation note in 2018, and does not anticipate issuing a revenue anticipation note in 2019.

Below is a chart of the City's revenue anticipation note borrowing history:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Issue Date</u>	<u>Due Date</u>
2015	800,000	12/3/2015	12/2/2016
2016	750,000	12/2/2016	12/1/2017
2017	282,519	11/30/2017	11/30/2018

Source: City records.

Capital Project Plans

On November 30, 2017, the City issued \$3,033,400 bond anticipation renewal notes for various projects. The bond anticipation which matured on November 30, 2018 will be retired with a combination of current funds, the proceeds of grants in-aid, and the proceeds of bonds and bond anticipation notes which were issued on November 29, 2019.

On April 5, 2016, the City adopted a bond resolution for \$2.3 million for the Air Stripper Refurbishment and Water Plant Upgrade Project. The project closed short term with NYS Environmental Facilities Corporation ("EFC") on November 2, 2017 in the amount of \$2.3 million and consists of a Water Infrastructure Improvement Act Grant ("WIIA") in the amount of \$1,380,000 and a short-term market rate financing loan ("SMRF") in the amount of \$920,000. The City has drawn \$94,000 of its \$1,380,000 grant and \$0 of its \$920,000 loan thus far. It is anticipated that bonds will be issued through EFC in 2019 at a subsidized interest rate.

On August 20, 2015, September 1, 2015 and July 18, 2017 (supplemental bond resolution) the City adopted a bond resolution for \$3,983,000 for the Clinton Avenue Sanitary & Storm Sewer Replacement Project. On April 5, 2016 the City adopted a bond resolution for \$3,000,000 for the Southside Drainage Improvements Project. Both projects closed short term under one financing with EFC on February 1, 2018 in the amount of \$6,953,000 and consists of following; Water Infrastructure Improvement Act Grant ("WIIA") for \$188,125, State Revolving Grant ("SRF") for \$995,725, Integrated Solutions Construction Grant ("ISC") for \$745,950, short term market rate financing ("SMRF") for \$2,457,625 and short term market rate financing ("STIFF") for \$2,565,575. There has been nothing drawn to date by the City on the grants or the loans.

On November 21, 2017, the City adopted a bond resolution for \$3.1 million to finance the cost of the reconstruction of the City's wastewater treatment system which will produce energy from burning methane gas produced at that treatment plant. The City has been awarded a \$2 million New York State Energy Research and Development Authority grant for improvements to its wastewater treatment system; \$1 million to be received during construction and \$1 million to be paid over 10 years based on energy savings. The issuance of \$3,100,000 bond anticipation notes on April 12, 2018 represented the first borrowing against this authorization. These bond anticipation notes will be redeemed with the proceeds of the Notes.

The City plans to undertake a \$17.8 million project for the reconstruction of infrastructure under Clinton Ave. to be funded with an \$8.7 million EPA WIIA loan, a \$4.2 million NYS EFC loan and \$4.7 million grants-in-aid. Initial funding is planned to be provided with bond anticipation notes over the next several years with permanent financing expected to take place in 2022.

The City currently has no other authorizations outstanding and no other borrowings are anticipated in the near future.

Estimated Overlapping Indebtedness

In addition to the City, the following political subdivisions have the power to issue bonds and notes and to levy taxes or cause taxes to be levied on taxable real property in the City. Estimated bonds and bond anticipation notes are listed as of the close of the respective fiscal years of the below municipalities.

<u>Municipality</u>	<u>Status of Debt as of</u>	<u>Gross Indebtedness</u> ⁽¹⁾	<u>Estimated Exclusions</u>	<u>Net Indebtedness</u>	<u>City Share</u>	<u>Applicable Indebtedness</u>
County of:						
Cortland	12/31/2016	\$ 29,373,680	\$ 5,557,687 ⁽²⁾	\$ 23,815,993	23.38%	\$ 5,568,179
School District:						
Cortland	6/30/2017	29,786,000	26,777,614 ⁽³⁾	3,008,386	58.29%	1,753,588
					Total:	<u>\$ 7,321,767</u>

(1) Bonds and bond anticipation notes are as of the close of the respective fiscal years, and are not adjusted to include subsequent bond sales, if any.

(2) Sewer, water and electric facility indebtedness.

(3) Estimated State Building aid.

Source: Comptroller's Special Report on Municipal Affairs for Local Finance Years Ended in 2016 and 2017.

Debt Ratios

The following table sets forth certain ratios relating to the City's indebtedness as of March 18, 2019:

	<u>Amount</u>	<u>Per Capita</u> ^(a)	<u>Percentage of Full Value</u> ^(b)
Net Direct Indebtedness	\$ 8,447,919	\$ 451.81	1.49%
Net Direct Plus Net Overlapping Indebtedness.....	15,769,686	843.39	2.78%

(a) The 2017 estimated population of the City is 18,698. See "Population Trends" herein.

(b) The City's full value of taxable real estate for 2019 is \$567,509,714. See "TAX INFORMATION – Taxable Valuations" herein.

(c) Estimated net overlapping indebtedness is \$7,321,767. See "Estimated Overlapping Indebtedness" for calculation of Net Indebtedness herein.

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

General Municipal Law Contract Creditors' Provision. Each Note when duly issued and paid for will constitute a contract between the City and the holder thereof. Under current law, provision is made for contract creditors of the City to enforce payments upon such contracts, if necessary, through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the City upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might be construed to have application to the holders of the Notes in the event of a default in the payment of the principal of and interest on the Notes.

Execution/Attachment of Municipal Property. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. In accordance with the general rule with respect to municipalities, judgments against the City may not be enforced by levy and execution against property owned by the City.

Authority to File for Municipal Bankruptcy. The Federal Bankruptcy Code allows public bodies, such as the City, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness.

The State has consented that any municipality in the State may file a petition with the United States District Court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness. Subject to such State consent, under the United States Constitution, Congress has jurisdiction over such matters and has enacted amendments to the existing federal bankruptcy statute, being Chapter 9 thereof, generally to the effect and with the purpose of affording municipal corporations, under certain circumstances, with easier access to judicially approved adjustment of debt including judicial control over identifiable and unidentifiable creditors.

No current state law purports to create any priority for holders of the Notes should the City be under the jurisdiction of any court, pursuant to the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness.

The rights of the owners of Notes to receive interest and principal from the City could be adversely affected by the restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of holders of debt obligations issued by the City to payment from monies retained in any debt service fund or from other cash resources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code or pursuant to other subsequently enacted laws relating to creditors' rights; such monies might, under such circumstances, be paid to satisfy the claims of all creditors generally.

Under the Federal Bankruptcy Code, a petition may be filed in the Federal Bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. Generally, the filing of such a petition operates as a stay of any proceeding to enforce a claim against the municipality. The Federal Bankruptcy Code also requires that a plan be filed for the adjustment of the municipality's debt, which may modify or alter the rights of creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite number of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it.

State Debt Moratorium Law. There are separate State law provisions regarding debt service moratoriums enacted into law in 1975.

At the Extraordinary Session of the State Legislature held in November 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of The City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of obligations.

As a result of the Court of Appeals decision in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 (1976), the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the City.

Right of Municipality or State to Declare a Municipal Financial Emergency and Stay Claims Under State Debt Moratorium Law. The State Legislature is authorized to declare by special act that a state of financial emergency exists in any county, city, town or village. (The provision does not by its terms apply to school districts or fire districts.) In addition, the State Legislature may authorize by special act establishment of an “emergency financial control board” for any county, city, town or village upon determination that such a state of financial emergency exists. Thereafter, unless such special act provides otherwise, a voluntary petition to stay claims may be filed by any such municipality (or by its emergency financial control board in the event said board requests the municipality to petition and the municipality fails to do so within five days thereafter). A petition filed in supreme court in county in which the municipality is located in accordance with the requirements of Title 6-A of the Local Finance Law (“Title 6-A”) effectively prohibits the doing of any act for ninety days in the payment of claims, against the municipality including payment of debt service on outstanding indebtedness.

This includes staying the commencement or continuation of any court proceedings seeking payment of debt service due, the assessment, levy or collection of taxes by or for the municipality or the application of any funds, property, receivables or revenues of the municipality to the payment of debt service. The stay can be vacated under certain circumstances with provisions for the payment of amounts due or overdue upon a demand for payment in accordance with the statutory provisions set forth therein. The filing of a petition may be accompanied with a proposed repayment plan which upon court order approving the plan, may extend any stay in the payment of claims against the municipality for such “additional period of time as is required to carry out fully all the terms and provisions of the plan with respect to those creditors who accept the plan or any benefits thereunder.” Court approval is conditioned, after a hearing, upon certain findings as provided in Title 6-A.

A proposed plan can be modified prior to court approval or disapproval. After approval, modification is not permissible without court order after a hearing. If not approved, the proposed plan must be amended within ten days or else the stay is vacated and claims including debt service due or overdue must be paid. It is at the discretion of the court to permit additional filings of amended plans and continuation of any stay during such time. A stay may be vacated or modified by the court upon motion of any creditor if the court finds after a hearing, that the municipality has failed to comply with a material provision of an accepted repayment plan or that due to a “material change in circumstances” the repayment plan is no longer in compliance with statutory requirements.

Once an approved repayment plan has been completed, the court, after a hearing upon motion of any creditor, or a motion of the municipality or its emergency financial control board, will enter an order vacating any stay then in effect and enjoining of creditors who accepted the plan or any benefits thereunder from commencing or continuing any court action, proceeding or other act described in Title 6-A relating to any debt included in the plan.

Title 6-A requires notice to all creditors of each material step in the proceedings. Court determinations adverse to the municipality or its financial emergency control board are appealable as of right to the appellate division in the judicial department in which the court is located and thereafter, if necessary, to the Court of Appeals. Such appeals stay the judgment or appealed from and all other actions, special proceedings or acts within the scope of Section 85.30 of Title 6-A pending the hearing and determination of the appeals.

Whether Title 6-A is valid under the Constitutional provisions regarding the payment of debt service is not known. However, based upon the decision in the *Flushing National Bank* case described above, its validity is subject to doubt.

While the State Legislature has from time to time adopted legislation in response to a municipal fiscal emergency and established public benefit corporations with a broad range of financial control and oversight powers to oversee such municipalities, generally such legislation has provided that the provisions of Title 6-A are not applicable during any period of time that such a public benefit corporation has outstanding indebtedness issued on behalf of such municipality.

Fiscal Stress and State Emergency Financial Control Boards. Pursuant to Article IX Section 2(b)(2) of the State Constitution, any local government in the State may request the intervention of the State in its “property, affairs and government” by a two-thirds vote of the total membership of its legislative body or on request of its chief executive officer concurred in by a majority of such membership. This has resulted in the adoption of special acts for the establishment of public benefit corporations with varying degrees of authority to control the finances (including debt issuance) of the cities of Buffalo, Troy and Yonkers and the County of Nassau. The specific authority, powers and composition of the financial control boards established by these acts varies based upon circumstances and needs. Generally, the State legislature has granted such boards the power to approve or disapprove budget and financial plans and to issue debt on behalf of the municipality, as well as to impose wage and/or hiring freezes and approve collective bargaining agreements in certain cases. Implementation is left to the discretion of the board of the public benefit corporation. Such a State financial control board was first established for New York City in 1975. In addition, on a certificate of necessity of the governor reciting facts which in the judgment of governor constitute an emergency requiring enactment of such laws, with the concurrences of two-thirds of the members elected in each house of the State legislature the State is authorized to intervene in the “property, affairs and governments” of local government units. This occurred in the case of the County of Erie in 2005. The authority of the State to intervene in the financial affairs of local government is further supported by Article VIII, Section 12 of the Constitution which declares it to be the duty of the State legislature to restrict, subject to other provisions of the Constitution, the power of taxation, assessment, borrowing money and contracting indebtedness and loaning the credit of counties, cities, towns and villages so as to prevent abuses in taxation and assessment and in contracting indebtedness by them.

In 2013, the State established a new state advisory board to assist counties, cities, towns and villages in financial distress. The Financial Restructuring Board for Local Governments (the “FRB”), is authorized to conduct a comprehensive review of the finances and operations of any such municipality deemed by the FRB to be fiscally eligible for its services upon request by resolution of the municipal legislative body and concurrence of its chief executive. The FRB is authorized to make recommendations for, but cannot compel improvement of fiscal stability, management and delivery of municipal services, including shared services opportunities and is authorized to offer grants and/or loans of up to \$5,000,000 through a Local Government Performance and Efficiency Program to undertake certain recommendations. If a municipality agrees to undertake the FRB recommendations, it will be automatically bound to fulfill the terms in order to receive the aid.

The FRB is also authorized to serve as an alternative arbitration panel for binding arbitration.

Although from time to time, there have been proposals for the creation of a statewide financial control board with broad authority over local governments in the State, the FRB does not have emergency financial control board powers to intervene such as the public benefit corporations established by special acts as described above.

Several municipalities in the State are presently working with the FRB. The City has not requested FRB assistance, nor does it reasonably expect to do so in the foreseeable future. School districts and fire districts are not eligible for FRB assistance.

Constitutional Non-Appropriation Provision. There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: “If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness.” This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service, but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. See “General Municipal Law Contract Creditors’ Provision” herein.

The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

Default Litigation. In prior years, certain events and legislation affecting a holder’s remedies upon default have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of bondholders, such courts might hold that future events including financial crises as they may occur in the State and in political subdivisions of the State require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service. See “Nature of Obligation” and “State Debt Moratorium Law” herein.

No Past Due Debt. No principal of or interest on City indebtedness is past due. The City has never defaulted in the payment of the principal of and interest on any indebtedness.

MARKET AND RISK FACTORS

There are various forms of risk associated with investing in the Notes. The following is a discussion of certain events that could affect the risk of investing in the Bonds and Notes. In addition to the events cited herein, there are other potential risk factors that an investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential risk.

The financial and economic condition of the City as well as the market for the Notes could be affected by a variety of factors, some of which are beyond the City’s control. There can be no assurance that adverse events in the State and in other jurisdictions in the country, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction or any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The City is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the City. In several recent years, the City has received delayed payments of State aid which resulted from the State’s delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. (See also “STATE AID”).

If a holder elects to sell his investment prior to its scheduled maturity date, market access or price risk may be incurred. If and when a holder of any of the Notes should elect to sell a Note prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Notes. Recent global financial crises have included limited periods of significant disruption. In addition, the price and principal value of the Notes is dependent on the prevailing level of interest rates; if interest rates rise, the price of a bond or note will decline, causing the bondholder or noteholder to incur a potential capital loss if such bond or note is sold prior to its maturity.

Amendments to U.S. Internal Revenue Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Notes and other debt issued by the City. Any such future legislation would have an adverse effect on the market value of the Notes (See "TAX MATTERS" herein).

The enactment of the Tax Cap Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts and have restrictions in the State, including the City without providing an exclusion for debt service on obligations issued by municipalities or fire districts, including the City, could have an impact upon the market price of the Notes. See "TAX CAP LAW" herein.

The City, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As such, it may face multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on computer or other sensitive digital systems and networks. There can be no assurances that any security and operational control measures implemented by the City will be completely successful to guard against and prevent cyber threats and attacks. The result of any such attacks could impact business operations and/or digital networks and systems and the costs of remedying any such damage could be significant.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excludable from gross income for federal income tax purposes. These requirements include provisions, which prescribe yield and other limits relative to the investment and expenditures of the proceeds of the Notes and other amounts and require that certain earnings be rebated to the federal government. The City will agree to comply with certain provisions and procedures, pursuant to which such requirements can be satisfied. Non-compliance with such requirements may cause interest on the Notes to become included in gross income for federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which non-compliance is ascertained.

The Code imposes a 30% branch profits tax on the earnings and profits of a United States branch of certain foreign corporations attributable to its income effectively connected (or treated as effectively connected) with a United States trade or business. Included in the earnings and profits of the United States branch of a foreign corporation is income that would be effectively connected with the United States trade or business if such income were taxable, such as the interest on the Notes. Existing United States income tax treaties may modify, reduce, or eliminate the branch profits tax, except in cases of treaty shopping.

The Code further provides that interest on the Notes is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits is to be included in taxable income of individuals. In addition, certain S Corporations may have a tax imposed on passive income, including tax-exempt interest, such as interest on the Notes.

Prospective purchasers should consult their tax advisors with respect to the calculations of the alternative minimum tax or foreign branch profits tax liability, and the tax on passive income of S Corporations or the inclusion of Social Security or other retirement payments in taxable income.

In the opinion of Bond Counsel, assuming compliance with certain requirements of the Code, under existing laws, interest on the Notes is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes.

The opinion of Bond Counsel described herein with respect to the federal income tax treatment of interest paid on the Notes is based upon the current provisions of the Code. There can be no assurance that the Code will not be amended in the future so as to reduce or eliminate such favorable federal income tax treatment on the Notes. Any such future legislation would have an adverse effect on the market value of the Notes.

In addition, in the opinion of Bond Counsel, under existing laws, interest on the Notes is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City of New York.

LEGAL MATTERS

The legality of the authorization and issuance of the Notes will be covered by the unqualified legal opinion of Bond, Schoeneck & King, PLLC, Bond Counsel, Syracuse, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Notes have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, without limitation as to rate or amount, subject to the statutory limitation imposed by the Tax Levy Limitation Law, (ii) interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City of New York; and (iii) interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinions of Bond Counsel set forth above are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes. It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may be also subject to exercise of judicial discretion in appropriate cases. See "TAX CAP LAW" herein.

Bond Counsel has not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement (except to the extent, if any, stated in the Official Statement) or any other offering material relating to the Notes, and Bond Counsel expresses no opinion relating thereto (excepting only matters set forth as Bond Counsel's opinion in the Official Statement).

LITIGATION

The City is subject to a number of lawsuits in the ordinary conduct of its affairs. The City does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the City.

There is no action, suit, proceedings or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the City, threatened against or affecting the City to restrain or enjoin the issuance, sale or delivery of the Notes or the levy and collection of taxes or assessments to pay same, or in any way contesting or affecting the validity of the Notes or any proceedings or authority of the City taken with respect to the authorization, issuance or sale of the Notes or contesting the corporate existence or boundaries of the City.

CONTINUING DISCLOSURE

In order to assist the purchasers in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12" or the "Rule"), the City will enter into an Undertaking to provide notice of certain enumerated events as described in Rule 15c2-12 with respect to the Notes, the form, substantially of which, is attached hereto as "APPENDIX – C".

Historical Compliance

Except as noted below, the City is in compliance in all material respects within the last five years with all previous undertakings made pursuant to the Rule.

The City did not file its Annual Disclosure Filing for the fiscal year end December 31, 2014 in a timely manner. The filing was made to EMMA on July 29, 2015. A material event notice related to this untimely filing was filed to EMMA on November 9, 2015.

The City has written continuing disclosure compliance procedures to ensure that all requirements pursuant to Rule 15c2-12 are met for its tax-exempt bond and note issuances and has hired a third party to act as dissemination agent for its continuing disclosure.

MUNICIPAL ADVISOR

Fiscal Advisors & Marketing, Inc. (the "Municipal Advisor"), is a municipal advisor, registered with the SEC and the MSRB. The Municipal Advisor serves as independent financial advisor to the City on matters relating to debt management. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Notes. The advice on the plan of financing and the structuring of the Notes was based on materials provided by the City and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the City or the information set forth in this Official Statement or any other information available to the City with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement. The fees to be paid by the City to the Municipal Advisor are partially contingent on the successful closing of the Notes.

CUSIP IDENTIFICATION NUMBERS

It is anticipated that CUSIP (an acronym that refers to Committee on Uniform Security Identification Procedures) identification numbers will be printed on the Notes. All expenses in relation to the printing of CUSIP numbers on the Notes will be paid for by the City provided, however; the City assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers.

RATINGS

The Notes are not rated. Subject to the approval of the City, the purchaser(s) of the Notes may have a rating completed after the sale at the expense of the purchaser(s), including any fees to be incurred by the City, such as a rating action that may require the filing of a material event notification to EMMA.

S&P Global Ratings ("S&P") has assigned their underlying rating of "A+" with a stable outlook to the City's outstanding bonds. A rating reflects only the view of the rating agency assigning such rating and an explanation of the significance of such rating may be obtained from such rating agency. Any desired explanation of the significance of such rating should be obtained from Standard & Poor's Credit Market Services, Public Finance Ratings, 55 Water Street, 38th Floor, New York, New York 10041, Phone: (212) 553-0038, Fax: (212) 553-1390.

Generally, rating agencies base their ratings on the information and materials furnished to it and on investigations, studies and assumptions by the respective rating agency. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of the rating of the outstanding bonds may have an adverse effect on the market price of the outstanding bonds and Notes.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion or estimates whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the holders of the Notes.

Statements in this official statement, and the documents included by specific reference, that are not historical facts are forward-looking statements, which are based on the City management's beliefs as well as assumptions made by, and information currently available to, the City's management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the City's files with the repositories. When used in City documents or oral presentation, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal", or similar words are intended to identify forward-looking statements.

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holder of the Notes.

Bond, Schoeneck & King, PLLC, Syracuse, New York, Bond Counsel to the City, expresses no opinions as to the accuracy or completeness of information in any documents prepared by or on behalf of the City for use in connection with the offer and sale of the Notes, including but not limited to, the financial or statistical information in this Official Statement.

References herein to the Constitution of the State and various State and federal laws are only brief outlines of certain provisions thereof and do not purport to summarize or describe all of such provisions.

Concurrently with the delivery of the Notes, the City will furnish a certificate to the effect that as of the date of the Official Statement, the Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading, subject to a limitation as to information in the Official Statement obtained from sources other than the City.

The Official Statement is submitted only in connection with the sale of the Notes by the City and may not be reproduced or used in whole or in part for any other purpose.

The City hereby disclaims any obligation to update developments of the various risk factors or to announce publicly any revision to any of the forward-looking statements contained herein or to make corrections to reflect future events or developments except to the extent required by Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Fiscal Advisors & Marketing, Inc. may place a copy of this Official Statement on its website at www.fiscaladvisors.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Fiscal Advisors & Marketing, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the City nor Fiscal Advisors & Marketing, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Fiscal Advisors & Marketing, Inc. and the City disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Fiscal Advisors & Marketing, Inc. and the City also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

The City's contact information is as follows: Mack Cook, Director of Administration and Finance, City Hall, 25 Court Street, Cortland, New York 13045, Phone: (607) 756-7312, Fax: (607) 753-3295, Email: mcook@cortland.org.

Additional copies of the Notice of Sale and the Official Statement may be obtained upon request from the offices of Fiscal Advisors & Marketing, Inc., Phone: (315) 752-0051, or at www.fiscaladvisors.com.

This Official Statement has been duly executed and delivered by the Director of Administration and Finance of the City of Cortland.

CITY OF CORTLAND

Dated: March 18, 2019

MACK COOK
DIRECTOR OF ADMINISTRATION AND FINANCE

GENERAL FUND

Balance Sheets

Fiscal Year Ending December 31:	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>ASSETS</u>					
Unrestricted Cash	\$ 4,553,660	\$ 3,948,994	\$ 4,429,370	\$ 4,640,342	\$ 4,197,451
Receivables:					
Taxes - Net	2,590,989	1,661,789	1,558,404	1,478,454	1,562,977
Other	152,461	169,993	197,851	210,577	201,773
State and Federal Aid	678,225	1,540,152	1,458,738	1,543,128	1,827,138
Due from Other Funds	436,537	508,568	604,563	312,360	473,158
Due from State and Federal Governments	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Restricted Assets	-	-	-	-	-
 TOTAL ASSETS	 <u>\$ 8,411,872</u>	 <u>\$ 7,829,496</u>	 <u>\$ 8,248,926</u>	 <u>\$ 8,184,861</u>	 <u>\$ 8,262,497</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Accounts Payable	\$ 409,830	\$ 258,001	\$ 212,229	\$ 269,717	\$ 319,788
Accrued Liabilities	1,624,783	1,590,533	1,489,867	1,399,776	1,450,163
Due to Other Funds	219,092	202,124	453,913	333,387	165,700
Due to Other Governments	548	572	101	-	-
Unearned Revenue	2,459,213	1,563,618	1,364,391	5,750	59,353
Deferred Revenue	-	-	-	1,263,781	1,712,101
 TOTAL LIABILITIES	 <u>4,713,466</u>	 <u>3,614,848</u>	 <u>3,520,501</u>	 <u>3,272,411</u>	 <u>3,707,105</u>
<u>FUND EQUITY</u>					
Restricted	\$ 3,592,916	\$ 4,121,945	\$ 4,499,767	\$ 4,769,978	\$ 4,483,213
Assigned	19,824	9,615	145,570	59,383	42,090
Unassigned	85,666	83,088	83,088	83,089	30,089
 TOTAL FUND EQUITY	 <u>3,698,406</u>	 <u>4,214,648</u>	 <u>4,728,425</u>	 <u>4,912,450</u>	 <u>4,555,392</u>
 TOTAL LIABILITIES and FUND EQUITY	 <u>\$ 8,411,872</u>	 <u>\$ 7,829,496</u>	 <u>\$ 8,248,926</u>	 <u>\$ 8,184,861</u>	 <u>\$ 8,262,497</u>

Source: Audited financial reports of the City.
This Appendix is not itself audited.

GENERAL FUND

Revenues, Expenditures and Changes in Fund Balance

Fiscal Years Ending December 31:	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
REVENUES					
Real Property Taxes & Items	\$ 7,948,266	\$ 8,489,432	\$ 8,745,924	\$ 8,676,863	\$ 8,737,633
Non-Property Tax Items	5,342,198	5,273,112	5,557,989	5,324,616	5,225,926
Departmental Income	638,020	613,809	614,215	655,763	608,354
Intergovernmental Charges	228,643	230,144	236,656	226,041	224,666
Use of Money & Property	39,479	55,670	40,998	37,444	45,436
Licenses and Permits	129,535	163,445	133,118	344,040	323,605
Fines and Forfeitures	291,501	280,395	238,469	219,426	217,663
Sale of Property and					
Compensation for Loss	102,916	178,496	49,759	62,829	111,727
Miscellaneous	68,541	32,361	37,394	65,292	78,057
Interfund Revenues	-	-	-	-	-
Revenues from State Sources	2,245,795	2,241,711	2,267,815	2,254,063	2,461,896
Revenues from Federal Sources	294,280	146,245	29,000	-	-
Total Revenues	<u>\$ 17,329,174</u>	<u>\$ 17,704,820</u>	<u>\$ 17,951,337</u>	<u>\$ 17,866,377</u>	<u>\$ 18,034,963</u>
EXPENDITURES					
General Government Support	\$ 1,189,789	\$ 1,198,065	\$ 1,447,735	\$ 2,247,859	\$ 2,365,515
Public Safety	7,060,393	7,305,636	9,365,240	9,309,259	9,466,090
Transportation	1,297,561	1,728,501	1,868,625	1,553,885	1,699,676
Culture and Recreation	922,651	927,558	1,060,704	879,270	1,040,868
Home and Community Services	525,808	491,565	503,719	446,724	505,992
Employee Benefits	5,745,874	5,523,427	3,339,206	3,529,420	3,628,785
Debt Service	951,916	993,529	830,997	526,365	532,800
Total Expenditures	<u>\$ 17,693,992</u>	<u>\$ 18,168,281</u>	<u>\$ 18,416,226</u>	<u>\$ 18,492,782</u>	<u>\$ 19,239,726</u>
Excess of Revenues Over (Under)					
Expenditures	<u>\$ (364,818)</u>	<u>\$ (463,461)</u>	<u>\$ (464,889)</u>	<u>\$ (626,405)</u>	<u>\$ (1,204,763)</u>
Other Financing Sources (Uses):					
Operating Transfers In	433,834	918,274	981,131	1,140,182	1,388,788
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing	<u>433,834</u>	<u>918,274</u>	<u>981,131</u>	<u>1,140,182</u>	<u>1,388,788</u>
Excess of Revenues and Other					
Sources Over (Under) Expenditures					
and Other Uses	<u>69,016</u>	<u>454,813</u>	<u>516,242</u>	<u>513,777</u>	<u>184,025</u>
FUND BALANCE					
Fund Balance - Beginning of Year	3,174,577	3,243,593	3,698,406	4,214,648	4,728,425
Prior Period Adjustments (net)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 3,243,593</u>	<u>\$ 3,698,406</u>	<u>\$ 4,214,648</u>	<u>\$ 4,728,425</u>	<u>\$ 4,912,450</u>

Source: Audited financial reports of the City. This Appendix is not itself audited.

GENERAL FUND

Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Fiscal Years Ending December 31:	2017			2018	2019
	Original Budget	Final Budget	Actual	Adopted Budget	Adopted Budget
REVENUES					
Real Property Taxes & Tax Items	\$ 8,813,421	\$ 8,813,421	\$ 8,650,256	\$ 8,980,939	\$ 9,278,478
Non-Property Tax Items	5,400,406	5,400,406	5,460,999	5,350,100	5,481,178
Departmental Income	914,200	914,200	673,943	883,700	658,800
Intergovernmental Charges	228,200	228,200	249,187	40,000	209,000
Use of Money & Property	40,087	40,087	48,517	45,587	49,500
Licenses and Permits	314,300	314,300	311,136	257,600	321,000
Fines and Forfeitures	232,050	232,050	213,801	229,350	4,000
Sale of Property and Compensation for Loss	400	25,678	35,425	-	-
Miscellaneous	5,000	33,560	89,431	410,000	383,500
Interfund Revenues	-	-	-	-	-
Revenues from State Sources	2,825,161	2,825,161	2,808,516	2,738,032	3,080,718
Revenues from Federal Sources	20,000	20,000	146,632	20,000	-
Total Revenues	<u>\$ 18,793,225</u>	<u>\$ 18,847,063</u>	<u>\$ 18,687,843</u>	<u>\$ 18,955,308</u>	<u>\$ 19,466,174</u>
EXPENDITURES					
General Government Support	\$ 2,562,990	\$ 2,589,259	\$ 2,850,498	\$ 2,482,303	\$ 2,346,471
Public Safety	9,882,638	9,922,896	9,976,015	8,390,739	7,800,095
Transportation	1,967,560	1,971,560	1,974,726	1,918,730	2,019,235
Culture and Recreation	1,045,998	1,096,691	982,134	921,751	843,152
Home and Community Services	463,930	459,930	495,119	533,875	553,525
Employee Benefits	3,896,466	3,896,466	3,807,020	5,776,433	6,710,331
Debt Service	533,404	533,404	519,150	513,075	774,963
Total Expenditures	<u>\$ 20,352,986</u>	<u>\$ 20,470,206</u>	<u>\$ 20,604,662</u>	<u>\$ 20,536,906</u>	<u>\$ 21,047,772</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (1,559,761)</u>	<u>\$ (1,623,143)</u>	<u>\$ (1,916,819)</u>	<u>\$ (1,581,598)</u>	<u>\$ (1,581,598)</u>
Other Financing Sources (Uses):					
Proceeds from issuance of bonds	\$ -	\$ -	\$ 6,125,000	\$ -	\$ -
Premium on bonds	-	-	664,706	-	-
Deposits to escrow agent	-	-	(6,789,706)	-	-
Operating Transfers In	1,559,761	1,559,761	1,559,761	1,581,598	1,581,598
Operating Transfers Out	-	-	-	-	-
Total Other Financing	<u>1,559,761</u>	<u>1,559,761</u>	<u>1,559,761</u>	<u>1,581,598</u>	<u>1,581,598</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>(63,382)</u>	<u>(357,058)</u>	<u>-</u>	<u>-</u>
FUND BALANCE					
Fund Balance - Beginning of Year	-	63,382	4,912,450	-	-
Prior Period Adjustments (net)	-	-	-	-	-
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,555,392</u>	<u>\$ -</u>	<u>\$ -</u>

Source: 2017 audited financial report and 2018 and 2019 budgets of the City. This Appendix is not itself audited.

CHANGES IN FUND EQUITY

Fiscal Year Ending December 31:	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>WATER FUND</u>					
Fund Equity - Beginning of Year	\$ 877,294	\$ 1,092,440	\$ 936,321	\$ 934,538 ⁽¹⁾	\$ 909,450 ⁽¹⁾
Prior Period Adjustments (net)	-	-	-	- ⁽¹⁾	- ⁽¹⁾
Revenues & Other Sources	1,930,464	2,121,174	2,233,621	2,072,899 ⁽¹⁾	2,258,543 ⁽¹⁾
Expenditures & Other Uses	1,715,318	2,277,293	2,235,404	2,097,987 ⁽¹⁾	2,243,246 ⁽¹⁾
Fund Equity - End of Year	\$ 1,092,440	\$ 936,321	\$ 934,538	\$ 909,450 ⁽¹⁾	\$ 924,747 ⁽¹⁾
<u>SEWER FUND</u>					
Fund Equity - Beginning of Year	\$ 2,375,357	\$ 2,615,840	\$ 2,828,485	\$ 3,401,692	\$ 3,778,000
Prior Period Adjustments (net)	-	-	-	-	-
Revenues & Other Sources	3,810,806	3,921,157	4,017,561	4,109,015	3,997,366
Expenditures & Other Uses	3,570,323	3,708,512	3,444,354	3,732,707	3,925,729
Fund Equity - End of Year	\$ 2,615,840	\$ 2,828,485	\$ 3,401,692	\$ 3,778,000	\$ 3,849,637
<u>SPECIAL GRANT FUND</u>					
Fund Equity - Beginning of Year	\$ 1,166,350	\$ 792,167	\$ 678,487	\$ 769,512	\$ 899,279
Prior Period Adjustments (net)	-	-	-	-	-
Revenues & Other Sources	615,135	869,796	1,038,864	899,386	1,444,513
Expenditures & Other Uses	989,319	983,476	947,839	769,619	1,710,055
Fund Equity - End of Year	\$ 792,167	\$ 678,487	\$ 769,512	\$ 899,279	\$ 633,737
<u>CAPITAL PROJECTS FUND</u>					
Fund Equity - Beginning of Year	\$ 761,069	\$ (883,583)	\$ (2,467,797)	\$ (5,760,099)	\$ (1,762,843)
Prior Period Adjustments (net)	-	-	-	-	-
Revenues & Other Sources	783,589	690,340	826,611	13,155,804	2,943,264
Expenditures & Other Uses	2,428,241	2,274,554	4,118,914	9,158,548	3,523,598
Fund Equity - End of Year	\$ (883,583)	\$ (2,467,797)	\$ (5,760,100)	\$ (1,762,843)	\$ (2,343,177)

⁽¹⁾ Source: Annual Update Documents (unaudited) of the City.

Source: 2013-2017 audited financial reports of the City, except where otherwise noted.
This Appendix is not itself audited.

APPENDIX - B
City of Cortland

BONDED DEBT SERVICE

Fiscal Year Ending December 31 st	Principal	Interest	Total
2019	\$ 1,298,000	\$ 476,667.56	\$ 1,774,667.56
2020	1,300,000	439,477.82	1,739,477.82
2021	1,150,000	399,468.27	1,549,468.27
2022	885,000	365,417.48	1,250,417.48
2023	905,000	336,923.58	1,241,923.58
2024	925,000	309,774.82	1,234,774.82
2025	955,000	283,747.22	1,238,747.22
2026	990,000	256,454.67	1,246,454.67
2027	1,010,000	227,864.31	1,237,864.31
2028	730,000	204,199.80	934,199.80
2029	750,000	185,377.91	935,377.91
2030	770,000	165,476.62	935,476.62
2031	785,000	144,211.11	929,211.11
2032	555,000	126,981.30	681,981.30
2033	570,000	114,158.01	684,158.01
2034	370,000	100,737.17	470,737.17
2035	380,000	94,226.52	474,226.52
2036	385,000	87,455.46	472,455.46
2037	390,000	80,498.58	470,498.58
2038	400,000	72,953.46	472,953.46
2039	405,000	64,845.31	469,845.31
2040	415,000	56,592.71	471,592.71
2041	425,000	48,137.51	473,137.51
2042	430,000	39,720.43	469,720.43
2043	440,000	31,358.00	471,358.00
2044	450,000	22,802.03	472,802.03
2045	460,000	14,052.51	474,052.51
2046	470,000	5,111.43	475,111.43
TOTALS	\$ 18,998,000	\$ 4,754,691.60	\$ 23,752,691.60

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the provisions of Rule 15c2-12, as the same may be amended or officially interpreted from time to time (the "Rule"), promulgated by the United States Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, the City has agreed to provide or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, during the period in which the Notes are outstanding, to the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults, if material
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) in the case of credit enhancement, if any, provided in connection with the issuance of the Notes, unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Note, or other material events affecting the tax status of the Notes
- (g) modifications to rights of Note holders, if material
- (h) note calls, if material and tender offers
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Note
- (k) rating changes
- (l) bankruptcy, insolvency, receivership or similar event of the City
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material
- (o) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect Note holders, if material; and
- (p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no "debt service reserves" will be established for the Notes.

With respect to event (d) the City does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

For the purposes of the event identified in paragraph (l) of this section, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

With respect to events (o) and (p), the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Notes; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The City reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the City’s obligations under its continuing disclosure undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

The City reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that the City agrees that any such modification will be done in a manner consistent with the Rule.

An "Continuing Disclosure Undertaking" to this effect shall be provided to the purchaser(s) at closing.

**CITY OF CORTLAND
CORTLAND COUNTY, NEW YORK**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

Such Audited Financial Statements and opinion were prepared as of date thereof and have not been reviewed and/or updated in connection with the preparation and dissemination of this Official Statement.

CITY OF CORTLAND, NEW YORK

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SECTION A

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

INDEPENDENT AUDITOR'S REPORT

September 18, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

(Continued)

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 accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018 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 solely 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 the effectiveness of the City's 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, 2017

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, 2017. 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 \$(10,075,893) 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 \$(40,555,694) at December 31, 2017. 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 2017 was \$7,509,775 and the net annual OPEB cost was \$6,523,748. The City paid \$1,882,328 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Position of \$35,011,755 for the remaining portion of the unfunded other postemployment benefit obligation.
- During the year, the City had fund expenditures that exceeded revenues of \$2,832,904 compared to last year, when the City had fund expenditures that exceeded revenues of \$3,242,396.
- General Fund expenditures of \$27,394,368 exceeded revenues of \$18,687,843, supplemented by transfers into the General Fund of \$1,159,761, proceeds from a bond refunding of \$6,125,000, and a bond premium of \$664,706 exceeded in 2017 and decreased fund balance by \$(357,058) for the year ended December 31, 2017.

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 \$(10,075,893) at the close of the most recent year. Compared to the prior year, this is a decrease of \$2,832,904 or 39%. The principal causes for this decrease is the City's increase in Other Post Employment Benefits liability.

THE CITY AS A WHOLE (Continued)

Current and other assets account for 29% of the City's total assets. At December 31, 2017 this category amounted to \$17,128,607 which decreased \$2,293,602, or 12% from the prior year.

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
	<u>2017</u>	<u>2016</u>	<u>2017-2016</u>
Current and other assets	\$ 17,132,607	\$ 19,422,209	-12%
Capital assets, net	<u>42,079,836</u>	<u>39,227,906</u>	7%
Total assets	<u>59,212,443</u>	<u>58,650,115</u>	1%
Deferred outflows - pension related	<u>4,963,388</u>	<u>8,918,914</u>	100%
Current	7,445,451	8,626,437	-14%
Long-term liabilities - due in one year	2,918,188	3,607,619	-19%
Long-term liabilities - due in more than one year	<u>62,466,527</u>	<u>61,245,740</u>	2%
Total liabilities	<u>72,830,166</u>	<u>73,479,796</u>	-1%
Deferred inflows - pension related	<u>1,142,566</u>	<u>1,332,222</u>	100%
Net investment in capital assets	23,747,396	20,189,207	18%
Restricted	6,067,699	6,890,619	-12%
Unrestricted	<u>(40,198,464)</u>	<u>(34,322,815)</u>	17%
Total net position	<u>\$ (10,383,369)</u>	<u>\$ (7,242,989)</u>	43%

Total liabilities decreased \$649,630, or 1%, over the prior year.

By far the largest portion of the City's net position, \$23,747,396, 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 \$3,558,189, or 18% from the prior year. This increase is primarily due to additions to the City's capital assets. 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)

A portion of the City's net position, \$6,067,699, 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.

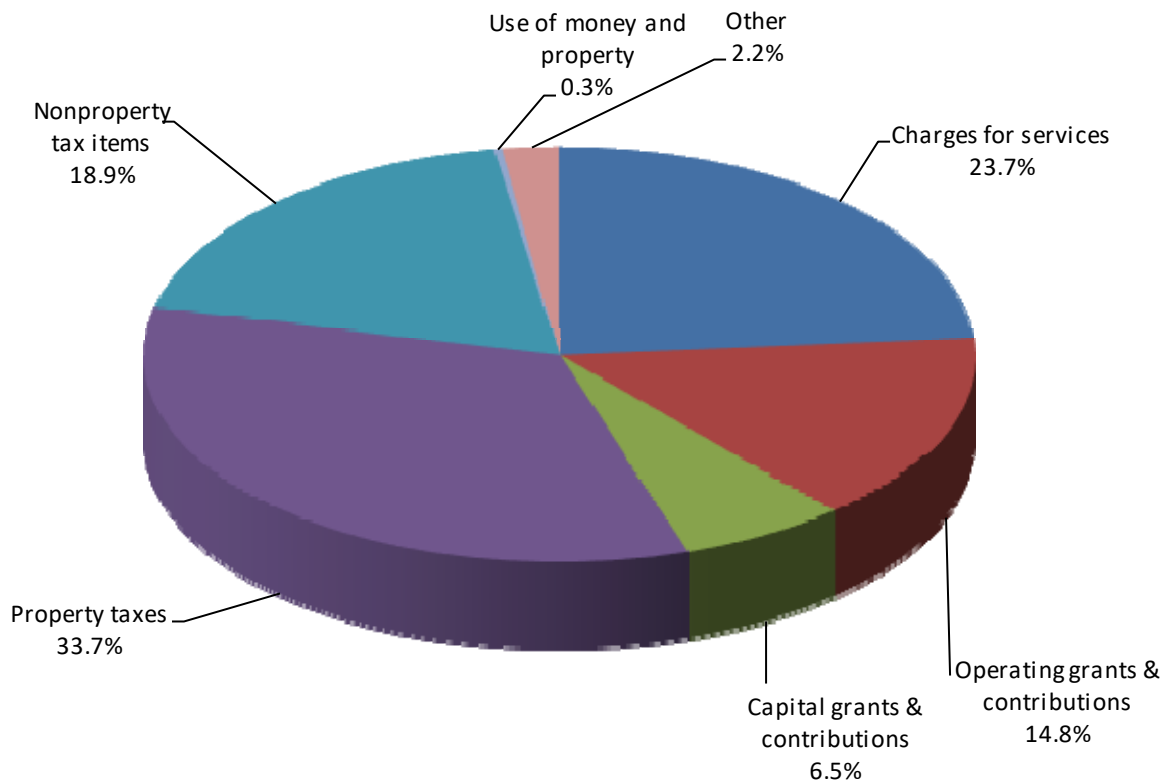
Figure 2
Changes in Net Position

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2017</u>	<u>2016</u>	<u>2017-2016</u>
REVENUES			
Program revenues:			
Charges for services	\$ 6,873,501	\$ 6,549,014	5%
Operating grants	4,270,949	5,311,593	-20%
Capital grants	1,883,424	-	0%
General revenues:			
Property taxes and tax items	9,750,084	9,629,451	1%
Nonproperty taxes	5,460,999	5,225,926	4%
Use of money and property	83,617	67,476	24%
Other general revenues	<u>631,902</u>	<u>371,533</u>	70%
Total revenues	<u>28,954,476</u>	<u>27,154,993</u>	7%
EXPENSES			
General government	4,105,070	3,024,831	36%
Public safety	16,520,188	14,643,388	13%
Transportation	2,801,777	698,590	301%
Economic assistance and opportunity	298,604	92,500	223%
Culture and recreation	1,712,827	2,066,710	-17%
Home and community services	6,284,359	9,343,392	-33%
Interest on long-term debt	<u>372,031</u>	<u>527,978</u>	-30%
Total expenses	<u>32,094,856</u>	<u>30,397,389</u>	6%
Change in net position	<u>\$ (3,140,380)</u>	<u>\$ (3,242,396)</u>	-3%

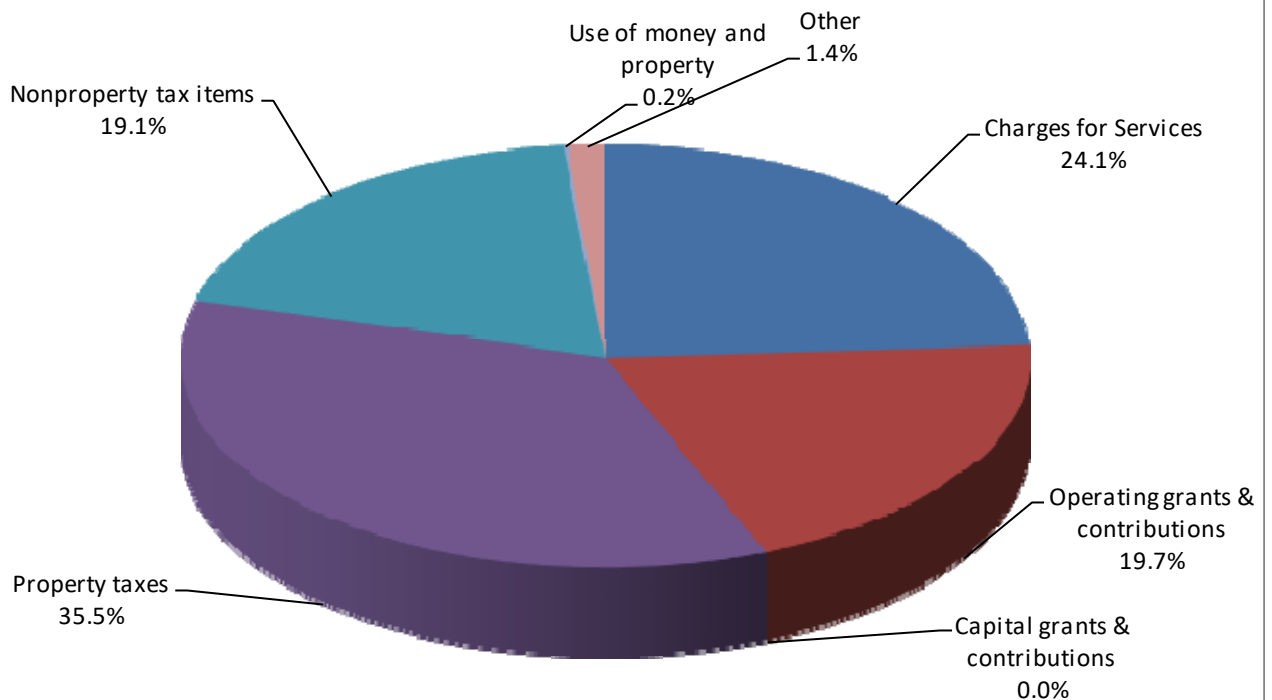
Revenues increased by \$1,795,483, or 7%, due primarily to an increase in operating grants, property taxes offset and charges for services. Expenses increased \$1,385,991, or 5%, primarily due to increases in general government, public safety, and transportation; and offset by decreases in home and community services.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2017 and 2016.

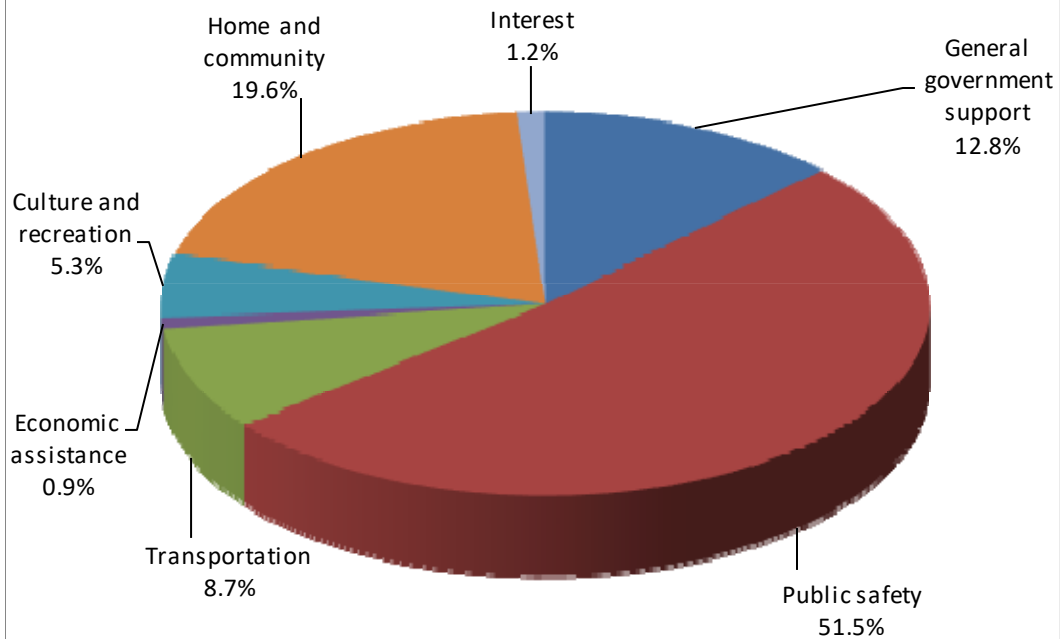
2017 Revenues - Governmental Activities



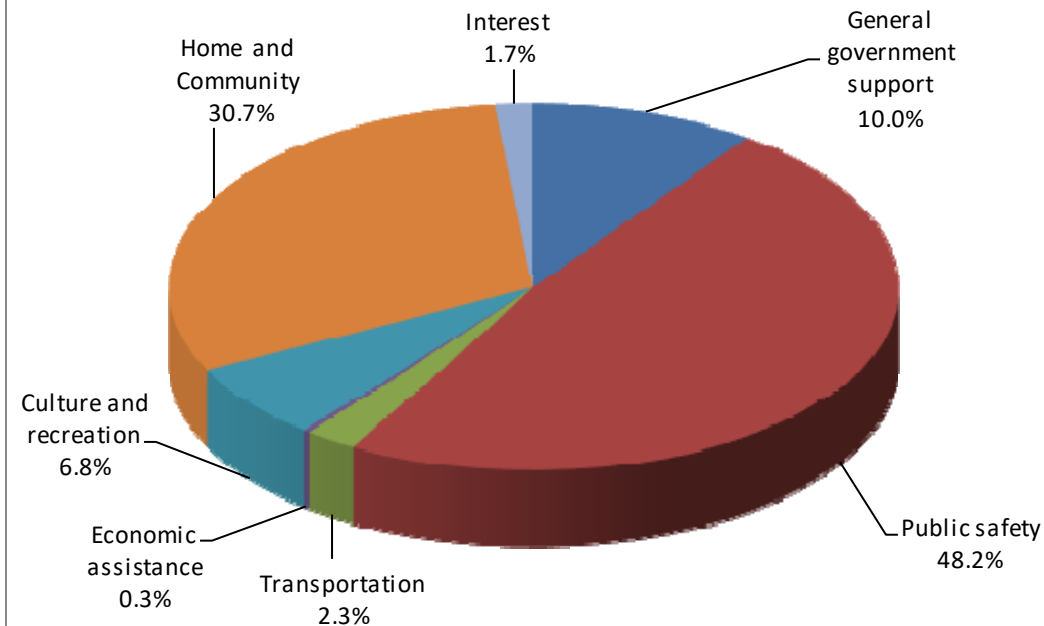
2016 Revenues - Governmental Activities



2017 Expenses - Governmental Activities



2016 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 \$7,778,494 which is \$1,167,584 below last year's total of \$8,946,078. 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>2017</u>	<u>2016</u>	<u>Percent Change</u> <u>2017-2016</u>
Major funds:			
General fund	\$ 4,555,392	\$ 4,912,450	-7%
Special revenue funds -			
Sewer fund	3,849,637	3,778,000	2%
Special grant fund	633,737	899,279	-30%
Capital projects fund	(2,343,177)	(1,762,843)	-33%
Non-major funds	<u>1,082,905</u>	<u>1,119,192</u>	-3%
Total governmental funds	<u>\$ 7,778,494</u>	<u>\$ 8,946,078</u>	-13%

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 departmental income, which showed an unfavorable variance of \$240,257. This is due to the allocation of a portion of CHIPs funding to capital projects.

The actual charges to appropriations (expenditures), in total, were greater than the final budget amounts by \$289,776. The most significant budget variance was expenditures in general government with a \$(288,609) unfavorable variance. This is due to a \$200,000 settlement for two matters, drainage and a tax assessment.

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES

Capital Assets

At the end of December 31, 2017, the City had \$42,079,836 invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net increase of \$2,851,930 over 2016. The increase in net capital assets is comprised of additions of \$5,434,820, depreciation expense of \$2,043,662, and a loss on disposals of \$196,670.

Figure 4
Capital Assets, at Historical Cost, net

	<u>2017</u>	<u>2016</u>	Percent Change <u>2017-2016</u>
Land	\$ 1,511,362	\$ 1,511,362	0%
Constuction in progress	9,295,802	6,962,600	
Buildings and improvements, net	11,674,791	11,723,743	0%
Machinery and equipment, net	11,139,713	11,853,426	-6%
Infrastructure, net	<u>8,458,168</u>	<u>7,176,775</u>	18%
Total	<u>\$ 42,079,836</u>	<u>\$ 39,227,906</u>	7%

Debt Administration

Debt (notes and bonds), a liability in the City's Governmental Activities, decreased by \$1,371,965, bringing the total debt outstanding to \$17,667,734 as of December 31, 2017, as shown in Figure 5. Of the amount of bonds outstanding, \$6,730,000 is subject to the constitutional debt limit and represented 18% 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>2017</u>	<u>2016</u>	Percent Change <u>2017-2016</u>
Capital notes	\$ -	\$ 5,965	-100%
Serial bonds	<u>17,667,734</u>	<u>19,032,734</u>	-7%
Total	<u>\$ 17,667,734</u>	<u>\$ 19,038,699</u>	-7%

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)

Noncurrent Liabilities

In 2017, the City's OPEB liability increased \$4,641,420. 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, 2017.

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, 2017 was calculated to be \$7,509,775 compared to \$7,036,798 at December 31, 2016. The City contributed \$1,882,328 on behalf of its retirees in 2017, resulting in a noncurrent liability of \$35,011,755 at December 31, 2017.

Additionally, the City's liability for compensated absences increased \$275,199 to \$7,181,816 as of December 31, 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic challenges facing the City's budget in 2017 and subsequent years are rooted in a stagnant tax base, limited increases in financial assistance from the State and the social-economic demographics of the City's population.

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

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

- The City's Central Business District is "downtown" for much of the County and, as mentioned, is the seat of both County and City government.
- The County's only hospital, Cortland Regional Medical Center, is located in the City, as are most major social service providers.
- Most of Cortland County's recreational parklands are in the City.
- The majority of the County's lower income housing units are located in the City, mostly due to the availability of goods and services.
- Many of the County's largest employers, including the hospital, SUNY Cortland, KIK International, and Cortland Enlarged City School District, are also located within City boundaries.

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

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

The challenge for the City becomes how to generate sufficient revenues/tax base without cutting essential services and without significantly increasing the cost of home ownership. This is particularly difficult in the City since approximately 38% of its assessment is exempt from property taxes.

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

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

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

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

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

Demographics

The City's 3.9 square miles accounts for only .8% of the County's total land area, however 39.0% of the County's population (48,713) resides in the City (19,018). 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 6,283 undergraduate students.

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 increased from 27.6 years in 2010 to 228.0 years in 2016. The City's median age is significantly lower than the County' 36.2 years (2016) reflecting the impact of SUNY Cortland's student population.

The City's Median Age reflects the need to render services unique to a younger population such as recreation, police and code enforcement.

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

Housing stock

There are 7,793 housing units, including student rentals, within the City of which 6,630 (85.0%) are occupied. County-wide there are 20,492 housing units with an 86.3% occupancy rate. 54.8% of the City's housing units are owner occupied.

The age of the City's housing stock is problematic with the median age of the stock dating back to 1939. 79.1% of the City's housing units were built before 1960.

Even though 45.2% of the City's housing stock is rental housing, the inventory of quality rental housing is low. A large percentage of rental housing within the City is marketed to college students. Young professionals, empty-nesters and others who may prefer the flexibility of renting have limited options. In 2013 the City, County and School District collaborated to enact property tax abatements for market-rate non-student residential development of second, third and fourth floors in the Downtown Business District. The City is currently experiencing some modest residential redevelopment in its older downtown buildings and has adopted an aggressive tax abatement program to foster residential development.

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

In addition, subsidized housing for seniors, people with low incomes and people with disabilities is in short supply, with nearly 100% occupancy rates and multi-year waiting lists for professionally managed facilities. Within the City there are 120 low income tax credit housing units and 158 Section 8 assisted units to serve 2,062 City residents over the age of 65.

Employment base

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

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

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 County'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. In 2017, 868 of the 9,157 employed residents were in manufacturing.

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 employer in the City is KIK International (850). The top four employers in the County are located in the City.

Income

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 2017, 22.4% of all City residents and 11.5% of city families live in poverty.

Per capita income within the City is \$20,228 compared to the county-wide per capita income of \$24,228. Median household income within the City is \$43,149.

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, 2017

Governmental Activities

ASSETS

Cash and cash equivalents - unrestricted	\$ 1,956,288
Cash and cash equivalents - restricted	5,771,624
Other receivables	1,941,551
Loans receivable	1,917,499
Due from Federal and State governments	3,899,055
Taxes receivable, net	1,562,977
Prepaid expenses	11,121
Due from other funds, net	72,492
Capital assets, net	<u>42,079,836</u>
Total assets	<u>59,212,443</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	<u>4,963,388</u>
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LIABILITIES

Accounts payable	865,567
Accrued liabilities	1,569,632
Unearned revenue	1,976,852
Bond anticipation notes payable	3,033,400
Revenue anticipation notes payable	282,519
Long-term liabilities -	
Due within one year	2,918,188
Due in more than one year	<u>62,466,527</u>
Total liabilities	<u>73,112,685</u>

DEFERRED INFLOWS OF RESOURCES

Deferred taxes	303,949
Pension related	<u>1,142,566</u>
Total deferred inflows of resources	<u>1,446,515</u>

NET POSITION

Net investment in capital assets	23,747,396
Restricted	6,067,699
Unrestricted	<u>(40,198,464)</u>
Total net position	<u>\$ (10,383,369)</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, 2017**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 4,105,070	\$ 607,244	\$ 2,202,782	43,200	\$ (1,251,844)
Public safety	16,520,188	87,909	594,410	129,756	(15,708,113)
Transportation	2,801,777	107,874	130,956	849,300	(1,713,647)
Economic assistance and opportunity	298,604	-	-	-	(298,604)
Culture and recreation	1,712,827	138,111	421,076	250,000	(903,640)
Home and community services	6,284,359	5,932,363	921,725	611,168	1,180,897
Interest on long-term debt	372,031	-	-	-	(372,031)
Total governmental activities	<u>\$ 32,094,856</u>	<u>\$ 6,873,501</u>	<u>\$ 4,270,949</u>	<u>\$ 1,883,424</u>	<u>(19,066,982)</u>
GENERAL REVENUES:					
					9,750,084
					5,460,999
					83,617
					<u>631,902</u>
					<u>15,926,602</u>
					(3,140,380)
					<u>(7,242,989)</u>
					\$ (10,383,369)

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

		Special Revenue Funds			Total Nonmajor Governmental Funds	Total
	General Fund	Sewer Fund	Special Grant Fund	Capital Projects Fund		
ASSETS						
Cash and cash equivalents - unrestricted	970	\$ 1,228,702	\$ -	\$ 484,422	\$ 242,194	\$ 1,956,288
Cash and cash equivalents - restricted	4,196,481	903,323	574,048	-	97,772	5,771,624
Due from Federal and State governments	1,827,138	32,455	199,932	1,832,225	7,305	3,899,055
Taxes receivable, net	1,562,977	-	-	-	-	1,562,977
Other receivables, net	201,773	902,306	-	38,684	798,788	1,941,551
Loans receivable	-	-	1,917,499	-	-	1,917,499
Prepaid expense	-	-	-	-	11,121	11,121
Due from other funds	473,158	1,053,682	-	155,667	400,377	2,082,884
Total assets	\$ 8,262,497	\$ 4,120,468	\$ 2,691,479	\$ 2,510,998	\$ 1,557,557	\$ 19,142,999
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 319,788	\$ 259,010	\$ 140,243	\$ 56,840	\$ 89,686	\$ 865,567
Accrued liabilities	1,450,163	-	-	33,511	-	1,483,674
Due to other funds	165,700	11,821	-	1,447,905	384,966	2,010,392
Bond anticipation note payable	-	-	-	3,033,400	-	3,033,400
Revenue anticipation note payable	-	-	-	282,519	-	282,519
Unearned revenues	59,353	-	1,917,499	-	-	1,976,852
Total liabilities	1,995,004	270,831	2,057,742	4,854,175	474,652	9,652,404
DEFERRED INFLOWS OF RESOURCES:						
Deferred taxes	1,712,101	-	-	-	-	1,712,101
Total deferred inflows of resources	1,712,101	-	-	-	-	1,712,101
FUND BALANCES:						
Nonspendable	-	-	-	-	11,121	11,121
Restricted	4,483,213	912,666	574,048	-	97,772	6,067,699
Assigned	42,090	2,936,971	59,689	-	974,012	4,012,762
Unassigned	30,089	-	-	(2,343,177)	-	(2,313,088)
Total fund balances	4,555,392	3,849,637	633,737	(2,343,177)	1,082,905	7,778,494
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,262,497	\$ 4,120,468	\$ 2,691,479	\$ 2,510,998	\$ 1,557,557	\$ 19,142,999

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, 2017

Total fund balance - governmental funds \$ 7,778,494

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	\$ 70,597,268	
Accumulated depreciation	<u>(28,517,432)</u>	42,079,836

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. 1,408,152

Accrued interest on long-term debt, including serial bonds, is an expenditure in the funds when paid, but a liability in the statement of net position when incurred. (85,958)

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	\$ (17,667,734)	
Premium on bond payable	(664,706)	
Compensated absences	(7,181,816)	
Other postemployment benefits	(35,011,755)	
Net pension liability	<u>(4,858,704)</u>	(65,384,715)

Deferred outflows/inflows of resources related to long term debt are applicable to future periods and; therefore are not reported in the funds.

Deferred outflow - pension related	4,963,388
Deferred inflow - pension related	<u>(1,142,566)</u>

Total net position of governmental activities \$ (10,383,369)

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds					
	General Fund	Sewer Fund	Special Grant Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
REVENUES:						
Real property taxes and tax items	\$ 8,650,256	\$ 955,457	\$ -	\$ -	\$ -	\$ 9,605,713
Nonproperty tax items	5,460,999	-	-	-	-	5,460,999
Departmental income	673,943	3,041,299	175,807	-	2,198,513	6,089,562
Intergovernmental charges	249,187	-	-	-	9,770	258,957
Use of money and property	48,517	610	149	-	34,341	83,617
Licenses and permits	311,136	-	-	-	45	311,181
Fines and forfeitures	213,801	-	-	-	-	213,801
Sale of property and compensation for loss	35,425	-	-	-	2,485	37,910
Miscellaneous	89,431	-	46,756	369,686	88,119	593,992
State aid	2,808,516	-	394,076	1,753,668	94,000	5,050,260
Federal aid	146,632	-	827,725	129,756	-	1,104,113
Total revenues	<u>18,687,843</u>	<u>3,997,366</u>	<u>1,444,513</u>	<u>2,253,110</u>	<u>2,427,273</u>	<u>28,810,105</u>
EXPENDITURES:						
General governmental support	2,850,498	-	-	43,343	1,150	2,894,991
Public safety	9,976,015	-	-	115,410	64,679	10,156,104
Transportation	1,974,726	-	-	964,263	-	2,938,989
Economic assistance and opportunity	-	-	298,604	-	-	298,604
Culture and recreation	982,134	-	-	3,138	60,486	1,045,758
Home and community services	495,119	1,396,573	1,411,451	2,318,076	951,493	6,572,712
Employee benefits	3,807,020	324,143	-	-	358,243	4,489,406
Debt service -						
Principal	399,134	528,592	-	-	203,239	1,130,965
Interest	120,016	200,138	-	79,368	50,638	450,160
Total expenditures	<u>20,604,662</u>	<u>2,449,446</u>	<u>1,710,055</u>	<u>3,523,598</u>	<u>1,689,928</u>	<u>29,977,689</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,916,819)</u>	<u>1,547,920</u>	<u>(265,542)</u>	<u>(1,270,488)</u>	<u>737,345</u>	<u>(1,167,584)</u>
OTHER FINANCING SOURCES (USES):						
Proceeds from bond refunding	6,125,000	-	-	-	-	6,125,000
Premium on bond refunding	664,706	-	-	-	-	664,706
Deposits to escrow agent	(6,789,706)	-	-	-	-	(6,789,706)
Operating transfers - in	1,559,761	-	-	690,154	-	2,249,915
Operating transfers - out	-	(1,476,283)	-	-	(773,632)	(2,249,915)
Total other financing sources and uses	<u>1,559,761</u>	<u>(1,476,283)</u>	<u>-</u>	<u>690,154</u>	<u>(773,632)</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>(357,058)</u>	<u>71,637</u>	<u>(265,542)</u>	<u>(580,334)</u>	<u>(36,287)</u>	<u>(1,167,584)</u>
FUND BALANCE - beginning of year	<u>4,912,450</u>	<u>3,778,000</u>	<u>899,279</u>	<u>(1,762,843)</u>	<u>1,119,192</u>	<u>8,946,078</u>
FUND BALANCE - end of year	<u>\$ 4,555,392</u>	<u>\$ 3,849,637</u>	<u>\$ 633,737</u>	<u>\$ (2,343,177)</u>	<u>\$ 1,082,905</u>	<u>\$ 7,778,494</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, 2017

Net change in fund balances - governmental funds \$ (1,167,584)

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	\$ 5,434,820	
Loss on disposal	(539,228)	
Depreciation	<u>(2,043,662)</u>	2,851,930

Deferred tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. 144,371

Repayment of bond principal and capital notes is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 7,495,965

Bond premium are recorded as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. (664,706)

Bond proceeds from refunding are recorded as an other financing source in the governmental funds but are recorded as an increase in long term debt in the statement of net position (6,125,000)

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.

Change in accrued interest payable	78,129	
Compensated absences	(275,199)	
Other postemployment benefits	<u>(4,641,420)</u>	(4,838,490)

Pension (expense) income resulting from the change in pension related liabilities that are long term in nature and therefore not reported in the funds (836,866)

Change in net position of governmental activities \$ (3,140,380)

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2017**

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 106,603
Investments	<u>200,004</u>
Total assets	<u>\$ 306,607</u>
LIABILITIES	
Due to other funds	\$ 72,492
Agency liabilities	<u>234,115</u>
Total liabilities	<u>\$ 306,607</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, 2017

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.

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 all unpaid school taxes to the City which were 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, 2017, 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, 2017.
- **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 balances that may exist in any other 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. 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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The budget policies are as follows:

- 1) On or before September 1st of each year, the various boards and commissions or, where no board or commission exists, the persons appointed as administrative heads of the units or authorized agencies of the City government, shall submit to the Mayor their budget for the ensuing fiscal year. In the event a budget is not submitted, the Mayor shall direct the Director of Finance and Administration to prepare one. The Mayor and the Director of Finance and Administration then review the submitted budgets.
- 2) By October 15th, the Mayor shall submit the tentative City budget to the Common Council and file it with the City Clerk. Upon filing the tentative City budget, a notice shall be placed in the official newspapers of the City.
- 3) By November 15th, the Mayor shall approve or amend the tentative City budget which shall then become the proposed budget and a notice shall be published in the official newspapers.
- 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, 2017	\$ 4,555,392
Less: Outstanding encumbrances	<u>(42,090)</u>

Budgetary basis fund balance at December 31, 2017	<u>\$ 4,513,302</u>
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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 \$2,343,177 at December 31, 2017. This deficit results from Bond Anticipation Notes (BANs) that have not yet been converted to long-term financing. It is expected that the deficit will decrease to zero when the City converts the BANs into long-term financing.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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, 2017:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 152,150	\$ 2,686,906
Time deposits	<u>7,681,125</u>	<u>7,480,295</u>
Total cash and cash equivalents	<u>\$ 7,833,275</u>	<u>\$ 10,167,201</u>
Insured cash - FDIC		\$ 1,500,000
Uninsured - collateralized with securities held by pledging financial institution		<u>9,445,658</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 10,945,658</u>

Restricted cash was \$5,771,624 at December 31, 2017 and represents amounts restricted for reserves or by various funding agencies.

4. RECEIVABLES

Receivables for governmental funds at December 31, 2017 are as follows:

General Fund:	
Taxes receivable, net	\$ 1,562,977
Due from federal and state governments	1,827,138
Other receivables	<u>201,773</u>
Total general fund	<u>3,591,888</u>
Capital Projects Fund:	
Due from federal and state governments	1,832,225
Other receivables	<u>38,684</u>
Total capital projects fund	<u>1,870,909</u>
Special Revenue Funds:	
Sewer fund:	
Sewer rents receivable	894,959
Due from federal and state governments	32,455
Other receivables	<u>7,347</u>
Total sewer fund	<u>934,761</u>
Special Grant Fund:	
Loans receivable	1,917,499
Due from federal and state governments	<u>199,932</u>
Total special grant fund	<u>2,117,431</u>
Nonmajor Governmental Funds:	
Water rents receivable	741,187
Other receivables	57,601
Due from federal and state governments	<u>7,305</u>
Total nonmajor governmental funds	<u>806,093</u>
Total receivables - governmental funds	<u>\$ 9,321,082</u>

5. PROPERTY TAXES

At December 31, 2017, gross real property tax receivables of \$1,612,977 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 \$1,408,152 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 2017 real property tax levy for general City purposes totaled \$8,326,922. 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 \$767,854 totaled \$7,755,251. The constitutional tax limit of the City for the fiscal year ended December 31, 2017 was \$10,754,516, leaving a margin of \$2,999,265.

6. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2017 are as follows:

	Balance at 12/31/2016	Additions	Deletions	Transfers	Balance at 12/31/2017
Governmental Activities					
Non-depreciable capital assets:					
Land	\$ 1,511,362	\$ -	\$ -	\$ -	\$ 1,511,362
Construction in progress	<u>6,962,600</u>	<u>4,023,424</u>	<u>-</u>	<u>(1,690,222)</u>	<u>9,295,802</u>
Total non-depreciable capital assets	<u>8,473,962</u>	<u>4,023,424</u>	<u>-</u>	<u>(1,690,222)</u>	<u>10,807,164</u>
Depreciable capital assets:					
Building and improvements	19,097,000	293,439	(293,439)	340,756	19,437,756
Machinery and equipment	25,996,094	324,798	(228,547)	23,750	26,116,095
Infrastructure	<u>12,331,290</u>	<u>793,159</u>	<u>(213,912)</u>	<u>1,325,716</u>	<u>14,236,253</u>
Total depreciable capital assets	<u>57,424,384</u>	<u>1,411,396</u>	<u>(735,898)</u>	<u>1,690,222</u>	<u>59,790,104</u>
Less accumulated depreciation:					
Building and improvements	(7,373,257)	(389,708)	-	-	(7,762,965)
Machinery and equipment	(14,142,668)	(1,030,384)	196,670	-	(14,976,382)
Infrastructure	<u>(5,154,515)</u>	<u>(623,570)</u>	<u>-</u>	<u>-</u>	<u>(5,778,085)</u>
Total accumulated depreciation	<u>(26,670,440)</u>	<u>(2,043,662)</u>	<u>196,670</u>	<u>-</u>	<u>(28,517,432)</u>
Total depreciable capital assets, net	<u>30,753,944</u>	<u>(632,266)</u>	<u>(539,228)</u>	<u>1,690,222</u>	<u>31,272,672</u>
Capital assets, net	<u>\$ 39,227,906</u>	<u>\$ 3,391,158</u>	<u>\$ (539,228)</u>	<u>\$ -</u>	<u>\$ 42,079,836</u>

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

Governmental activities:

Home and community service	\$ 807,709
Transportation	602,248
Public safety	450,483
General government	105,041
Culture and recreation	<u>78,181</u>
Total depreciation expense	<u>\$ 2,043,662</u>

7. PENSION PLAN

New York State Employee Retirement System (NYSERS) and Police and Fire Retirement System (NYSPFRS)

The City participates in the New York State and Local Employees' Retirement System (NYSERS). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the NYERS is held in the New York State Common Retirement Fund (the Fund), established to hold all net position and record changes in plan net position allocated to the NYERS. The NYERS benefits are established under the provisions of the New York State Retirement and Social Security Law (NYS RSSL). Once an employer elects to participate in the NYERS, the election is irrevocable.

The City also participates in the New York State and Local Police and Fire Retirement System (NYSPFRS). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the NYSPFRS is held in the New York State Common Retirement Fund (the Fund), established to hold all net position and record changes in plan net position allocated to the NYSPFRS. The NYSPFRS benefits are established under the provisions of the New York State Retirement and Social Security Law (NYS RSSL). Once an employer elects to participate in the NYSPFRS, the election is irrevocable.

The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City, SURA and the District also participate in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The system is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The NYERS and NYSPFRS are noncontributory except for employees who joined the NYERS and NYSPFRS after July 27th, 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 NYRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYERS' and NYSPFRS' fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of contributions required, and were as follows:

	<u>ERS</u>	<u>PFRS</u>
2017	\$ 495,257	\$ 1,438,294
2016	\$ 481,641	\$ 1,384,729
2015	\$ 535,959	\$ 1,450,535

7. PENSION PLAN (Continued)

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

At December 31, 2017 the City reported a net pension liability of \$1,228,164 and \$3,630,540 for its proportionate share of the NYSERS and NYSPFRS net pension liability, respectively. The net pension liability was measured as of March 31, 2017, 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, 2017, the City's proportionate share was .0130708% and .1751640% for ERS and PFRS, respectively, which was an increase of .0000747% and a decrease of .0174133%, respectively, from its proportionate share measured at December 31, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$683,513 and \$2,070,119 for NYSERS and NYSPFRS, respectively. At December 31, 2017, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

NYSERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,777	\$ 186,504
Changes in assumption	419,586	-
Net difference between projected and actual earnings on pension plan investments	245,314	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	5,941	62,820
Contributions subsequent to the measurement date	371,443	-
Total	<u>\$ 1,073,061</u>	<u>\$ 249,324</u>

NYSPFRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 476,264	\$ 627,277
Changes in assumption	1,788,614	-
Net difference between projected and actual earnings on pension plan investments	542,216	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	4,512	265,965
Contributions subsequent to the measurement date	1,078,721	-
Total	<u>\$ 3,890,327</u>	<u>\$ 893,242</u>

7. 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:	ERS	PFRS
2018	\$ 212,460	\$ 654,504
2019	212,460	654,504
2020	198,597	614,035
2021	(171,223)	(66,365)
2022	-	61,686
	<u>\$ 452,294</u>	<u>\$ 1,918,364</u>

The City recognized \$371,443 and \$1,078,721 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, 2017 which will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017.

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

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary scale	3.80% for ERS, 4.5% for PFRS indexed by service
Projected COLAs	1.30% compounded annually
Decrements	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014
Investment rate of return	7.00% 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.

7. 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, 2017 are summarized below:

Long-Term Expected Rate of Return

<u>Asset Type</u>	<u>Target Allocations in %</u>	<u>Long-Term expected real rate of return in %</u>
Domestic Equity	36.0	4.55
International Equity	14.0	6.35
Private Equity	10.0	7.75
Real Estate	10.0	5.80
Absolute Return	2.0	4.00
Opportunistic Portfolio	3.0	5.89
Real Asset	3.0	5.54
Bonds & Mortgages	17.0	1.31
Cash	1.0	(0.25)
Inflation Indexed Bonds	<u>4.0</u>	1.50
Total	<u>100.0</u>	

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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 7.0%, 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 (6.0%) or 1% higher (8.0%) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount (7.0%)</u>	<u>1% Increase (8.0%)</u>
NYSERS Proportionate Share of Net Pension liability (asset)	<u>\$ 3,922,511</u>	<u>\$ 1,228,164</u>	<u>\$ (1,049,902)</u>
	<u>1% Decrease (6.0%)</u>	<u>Current Discount (7.0%)</u>	<u>1% Increase (8.0%)</u>
NYSPFRS Proportionate Share of Net Pension liability (asset)	<u>\$ 10,292,371</u>	<u>\$ 3,630,540</u>	<u>\$ (1,957,105)</u>

7. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position (in Thousands)

The components of the current-year net pension liability of the employers as of March 31, 2017 for ERS and PFRS respectively follow:

Total pension liability	\$ 177,400,586
Net position	<u>(168,004,363)</u>
Net pension liability (asset)	<u>\$ 9,396,223</u>
ERS net position as a percentage of total pension liability	<u>94.7%</u>

Total pension liability	\$ 31,670,483
Net position	<u>(29,597,831)</u>
Net pension liability (asset)	<u>\$ 2,072,652</u>
PFRS net position as a percentage of total pension liability	<u>93.5%</u>

8. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

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

Funding Policy

The contribution requirements of Retirement Plan members and the City are established and may be amended by the Common Council. The Common Council has negotiated several collective bargaining agreements, which include obligations of Retirement Plan members and the City. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2017, the City contributed \$1,882,328 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 258 participants in the City's Retirement Plan at December 31, 2017.

Annual OPEB Cost and Net OPEB Obligation

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

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Normal cost	\$ 2,686,145
Amortization of UAAL	<u>4,823,630</u>
Total annual required contribution	7,509,775
Interest on net OPEB obligation	1,122,825
Adjustment to annual required contribution	<u>(2,108,852)</u>
Annual OPEB cost	6,523,748
Contributions made	<u>(1,882,328)</u>
Increase in net OPEB obligation	4,641,420
NET OPEB obligation - January 1, 2017	<u>30,370,335</u>
NET OPEB obligation - December 31, 2017	<u>\$ 35,011,755</u>

Trend Information

The following table provides trend information for the Retirement Plan:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$6,523,748	\$1,882,328	28.9%	\$35,011,755
2016	\$6,254,769	\$1,842,415	29.5%	\$30,370,335
2015	\$5,996,502	\$1,745,300	29.1%	\$25,957,981

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2017 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	3.5%
Medical care cost trend rate	5.0% initially, reduced by decrements each year to an ultimate rate of 3.84% in 2086.
Unfunded actuarial accrued liability:	
Amortization period	30 years (21 years remaining)
Amortization method	Level dollar closed

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

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

9. SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. The City issued one Bond Anticipation Notes (BAN) and one Revenue Anticipation Note (RAN) in 2017 totaling \$3,315,919 as noted below.

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
BAN A	November 30, 2017	November 30, 2018	2.25%	\$ 3,033,400
RAN B	November 30, 2017	November 30, 2018	1.95%	282,519
				<u>\$ 3,315,919</u>

9. SHORT-TERM DEBT (Continued)

The following is a summary of changes in short-term debt for the year ended December 31, 2017:

Balance, January 1, 2017	\$ 4,977,000
Increases	3,315,919
Decreases	<u>(4,977,000)</u>
Balance, December 31, 2017	<u>\$ 3,315,919</u>

10. LONG-TERM LIABILITIES

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, 2017:

<u>Description</u>	<u>Outstanding</u> <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/17</u>	<u>Due Within</u> <u>One Year</u>
Bonds	\$ 19,032,734	\$ 6,125,000	\$ (7,490,000)	\$ 17,667,734	\$ 1,122,734
Premium on bonds	-	664,706	-	664,706	-
Capital notes	5,965	-	(5,965)	-	-
Other postemployment benefits	30,370,335	6,523,748	(1,882,328)	35,011,755	-
Net pension liability	7,787,708	-	(2,929,004)	4,858,704	-
Compensated absences	<u>6,906,617</u>	<u>275,199</u>	<u>-</u>	<u>7,181,816</u>	<u>1,795,454</u>
Total	<u>\$ 64,103,359</u>	<u>\$ 13,588,653</u>	<u>\$(12,307,297)</u>	<u>\$ 65,384,715</u>	<u>\$ 2,918,188</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, 2017, the City recognized interest expenditures of \$370,792 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	\$ 450,160
Add: Interest accrued at December 31, 2017	85,958
Less: Interest accrued at December 31, 2016	<u>(164,087)</u>
Total interest expense - governmental activities	<u>\$ 372,031</u>

10. LONG-TERM LIABILITIES (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>	<u>Amount Due Within One Year</u>
Refunding of 1996					
Public Imp.	3/2008	3/2021	3.25%-4.375%	165,000	165,000
Public improvement	2/2009	2/2027	4.5%-4.875%	430,000	210,000
Public improvement	1/2012	5/2022	0.5%-3.1%	175,000	55,000
2017 Refunding					
Public Imp.	5/2017	6/2031	2.00%-5.00%	6,125,000	380,000
Public improvement	9/2016	2/2046	2.94%-2.99%	<u>10,772,734</u>	<u>312,734</u>
Total				<u>\$ 17,667,734</u>	<u>\$ 1,122,734</u>

The following table summarizes the City's future debt service requirements as of December 31, 2017 (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>Principal</u>	<u>Interest</u>
2018	\$ 1,122,734	\$ 407,895
2019	1,165,000	374,271
2020	1,165,000	338,940
2021	1,010,000	303,950
2022	745,000	275,075
2023 – 2027	4,010,000	1,043,978
2028 – 2032	2,665,000	608,641
2033 – 2037	1,890,000	406,877
2038 – 2042	2,075,000	243,741
2043 – 2046	<u>1,820,000</u>	<u>61,825</u>
Total	<u>\$ 17,667,734</u>	<u>\$ 4,065,193</u>

11. FUND BALANCES

As of December 31, 2017, 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	\$ -	\$ -	\$ -	\$ -	\$ 11,121
Restricted -					
Law	4,483,213	912,666	-	-	97,772
Grantors	-	-	574,048	-	-
Assigned -					
General government	42,090	-	-	-	-
Other spendable amounts	-	2,936,971	59,689	-	974,012
Unassigned	<u>30,089</u>	<u>-</u>	<u>-</u>	<u>(2,343,177)</u>	<u>-</u>
Total	<u>\$ 4,555,392</u>	<u>\$ 3,849,637</u>	<u>\$ 633,737</u>	<u>\$ (2,343,177)</u>	<u>\$ 1,082,905</u>

12. INTERFUND ACTIVITIES

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

Interfund receivables and payables at December 31, 2017 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenue</u>	<u>Interfund Expense</u>
General fund	\$ 473,158	\$ 165,700	\$ 1,559,761	\$ -
Nonmajor funds	400,377	384,966	-	773,632
Sewer fund	1,053,882	11,821	-	1,476,283
Special grant fund	-	-	-	-
Agency fund	-	72,492	-	-
Capital projects fund	<u>155,667</u>	<u>1,447,905</u>	<u>690,154</u>	<u>-</u>
Total	<u>\$ 2,082,884</u>	<u>\$ 2,082,884</u>	<u>\$ 2,249,915</u>	<u>\$ 2,249,915</u>

13. PUBLIC ENTITY RISK POOL

Risk Financing

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

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

During the year ended December 31, 2017, the City incurred premiums or contribution expenditures of approximately \$274,000.

14. COMMITMENTS AND CONTINGENCIES

General Information

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

14. COMMITMENTS AND CONTINGENCIES (Continued)

Judgments and Claims

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

State and Federally Assisted Programs

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

Concentrations

The City has agreements with the full-time members of its employees' unions. Together, these unions represent approximately 77% of the City's workforce at December 31, 2017.

15. DEFINED CONTRIBUTION VOLUNTEER FIREFIGHTER SERVICE AWARD PROGRAMS

Length of Service Awards Program (LOSAP)

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

Participation, Vesting and Service Credit

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

Benefits

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

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

Fiduciary Investment and Control

Service credit is determined by the City Council, based on information certified to the City Council by each fire company having members who participate in the program. Each fire company must maintain all required records on forms prescribed by the City Council. The City Council 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	\$ 200,004
Less: Liabilities	-
Total Net Assets Available for Benefits	<u>\$ 200,004</u>

Receipts and Disbursements

Plan Net Assets, beginning of year		\$ 185,220
Changes during the year:		
+ Plan contributions	11,040	
+ Investment income earned	-	
+/- Changes in fair market value of investments	15,874	
- Plan Benefit Withdrawals	(12,130)	
- Administrative and Other Fees/Charges	-	<u>14,784</u>
Plan Net Assets, end of year		<u>\$ 200,004</u>

Contributions

Amount of sponsor's required contribution:	\$ 11,040
Amount of sponsor's actual contribution:	\$ 11,040

16. TAX ABATEMENTS

The City has multiple real property tax abatement agreements entered into by the Cortland County Industrial Development Agency (CCIDA) under Article 18-A of the real property tax law. These agreements provide for abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT).

The CCIDA issues PILOT agreements, which will offer tax exemptions in return for the creation of economic development within the City. The CCIDA offers programs for various projects including manufacturing, warehouse and distribution; agriculture; tourism, community development; retail; energy production; and housing. All projects are required to create or retain jobs, some increase property values, and increase local tax bases. The period of the tax exemption is normally 10 years unless otherwise stated in the PILOT agreement and shall have a maximum initial abatement of 100%.

The CCIDA may recapture the value of all or any exemptions granted if any minimum employment level required for the project is not maintained.

The following information summarizes the PILOT agreements entered into by the CCIDA relating to the City:

<u>Project Name</u>	2017	2017	<u>Taxes Abated</u>
	<u>Real Property Tax</u>	<u>Pilot Payment Received</u>	
Crown Homes	\$ 18,736	\$ 5,431	\$ 13,305
Clocktower	\$ 13,452	\$ 8,407	\$ 5,045
Cortland Plastics	\$ 17,065	\$ 13,108	\$ 3,957

Cortland Housing Authority

The City also has an agreement with the Cortland Housing Authority to help facilitate the development of low-rent housing. These low-rent housing projects are exempt from all real and personal property tax as long as the property is owned by a public body of government agency and is used for low-rent housing purposes. In 2017 the Cortland Housing Authority made a PILOT payment to the City in the amount of \$71,975. The calculated taxes for the Cortland Housing Authority would have been \$145,199 and, therefore, the taxes abated for 2017 were \$73,224.

17. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (other postemployment benefits or OPEB). The City is required to adopt the provisions of Statement No. 75 for the year ending December 31, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. This Statement also requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. The City is required to adopt the provisions of this Statement for the year ending December 31, 2019.

17. IMPACT OF FUTURE GASB PRONOUNCEMENTS (Continued)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments with a focus on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. The City is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is address practice issues specific to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The City is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City is required to adopt the provisions of this Statement for the year ending December 31, 2020.

The City has not yet assessed the impact of these statements on its future financial statements.

18. SUBSEQUENT EVENT

On April 12, 2018 the City issued a Bond Anticipation Note for \$3,100,000 with a 2.75% interest rate.

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, 2017

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 8,813,421	\$ 8,813,421	\$ 8,650,256	\$ (163,165)
Nonproperty tax items	5,400,406	5,400,406	5,460,999	60,593
Departmental income	914,200	914,200	673,943	(240,257)
Intergovernmental charges	228,200	228,200	249,187	20,987
Use of money and property	40,087	40,087	48,517	8,430
Licenses and permits	314,300	314,300	311,136	(3,164)
Fines and forfeitures	232,050	232,050	213,801	(18,249)
Sale of property and compensation for loss	400	25,678	35,425	9,747
Miscellaneous	5,000	33,560	89,431	55,871
State aid	2,825,161	2,825,161	2,808,516	(16,645)
Federal aid	20,000	20,000	146,632	126,632
Total revenues	<u>18,793,225</u>	<u>18,847,063</u>	<u>18,687,843</u>	<u>(159,220)</u>
EXPENDITURES:				
General governmental support	2,562,990	2,589,259	2,877,868	(288,609)
Public safety	9,882,638	9,922,896	9,990,735	(67,839)
Transportation	1,967,560	1,971,560	1,974,726	(3,166)
Culture and recreation	1,045,998	1,096,691	982,134	114,557
Home and community services	463,930	459,930	495,119	(35,189)
Employee benefits	3,896,466	3,896,466	3,807,020	89,446
Debt service	533,404	533,404	519,150	14,254
Total expenditures	<u>20,352,986</u>	<u>20,470,206</u>	<u>20,646,752</u>	<u>(176,546)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,559,761)</u>	<u>(1,623,143)</u>	<u>(1,958,909)</u>	<u>(335,766)</u>
OTHER FINANCING SOURCES:				
Proceeds from issuance of bonds	-	-	6,125,000	6,125,000
Premium on bonds	-	-	664,706	664,706
Deposits to escrow agent	-	-	(6,789,706)	(6,789,706)
Operating transfers - in	1,559,761	1,559,761	1,559,761	-
Total other financing sources	<u>1,559,761</u>	<u>1,559,761</u>	<u>1,559,761</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	(63,382)	(399,148)	(335,766)
FUND BALANCE - beginning of year	<u>4,912,450</u>	<u>4,912,450</u>	<u>4,912,450</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 4,912,450</u>	<u>\$ 4,849,068</u>	<u>\$ 4,513,302</u>	<u>\$ (335,766)</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, 2017

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 568,345	\$ 568,345	\$ 955,457	\$ 387,112
Departmental income	2,868,491	2,868,491	3,041,299	172,808
Use of money and property	230	230	610	380
State aid	-	-	-	-
Total revenues	<u>3,437,066</u>	<u>3,437,066</u>	<u>3,997,366</u>	<u>560,300</u>
EXPENDITURES:				
Home and community services	1,664,184	3,185,607	1,396,573	1,789,034
Employee benefits	191,618	191,618	324,143	(132,525)
Debt service	<u>795,135</u>	<u>795,135</u>	<u>728,730</u>	<u>66,405</u>
Total expenditures	<u>2,650,937</u>	<u>4,172,360</u>	<u>2,449,446</u>	<u>1,722,914</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>786,129</u>	<u>(735,294)</u>	<u>1,547,920</u>	<u>2,283,214</u>
OTHER FINANCING USES:				
Operating transfers - out	<u>(786,129)</u>	<u>(786,129)</u>	<u>(1,476,283)</u>	<u>(690,154)</u>
Total other financing uses	<u>(786,129)</u>	<u>(786,129)</u>	<u>(1,476,283)</u>	<u>(690,154)</u>
CHANGE IN FUND BALANCE	-	(1,521,423)	71,637	1,593,060
FUND BALANCE - beginning of year	<u>3,778,000</u>	<u>3,778,000</u>	<u>3,778,000</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 3,778,000</u>	<u>\$ 2,256,577</u>	<u>\$ 3,849,637</u>	<u>\$ 1,593,060</u>

CITY OF CORTLAND, NEW YORK

REQUIRED SUPPLEMENTARY INFORMATION

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

FOR THE YEAR ENDED DECEMBER 31, 2017

Actuarial Valuation Date	Year Ended	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a percentage of Covered Payroll
January 1, 2017	December 31, 2017	\$ -	\$ 70,897,588	\$ 70,897,588	0.00%	\$ 10,165,792	697.4%
January 1, 2016	December 31, 2016	\$ -	\$ 67,364,623	\$ 67,364,623	0.00%	\$ 9,819,928	686.0%
January 1, 2015	December 31, 2015	\$ -	\$ 62,949,066	\$ 62,949,066	0.00%	\$ 9,984,711	630.5%

CITY OF CORTLAND, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - NYSERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.013071%	0.012996%	0.012778%	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.						
Proportionate share of the net pension liability (asset)	\$ 1,228	\$ 2,086	\$ 432							
Covered-employee payroll	\$ 3,356	\$ 3,292	\$ 3,052							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.59%	63.37%	14.15%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.70%	97.90%	97.90%							

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - NYSPFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.175164%	0.192577%	0.188054%	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.						
Proportionate share of the net pension liability (asset)	\$ 3,631	\$ 5,702	\$ 518							
Covered-employee payroll	\$ 6,181	\$ 6,528	\$ 5,963							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	58.74%	87.35%	8.69%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	93.50%	99.00%	99.00%							

CITY OF CORTLAND, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION PLANS - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - NYSERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 495	\$ 482	\$ 536							
Contributions in relation to the contractually required contribution	495	482	536							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 3,356	\$ 3,292	\$ 3,052							
Contributions as a percentage of covered-employee payroll	14.75%	14.63%	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 - NYSPFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 1,438	\$ 1,385	\$ 1,451							
Contributions in relation to the contractually required contribution	1,438	1,385	1,451							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 6,181	\$ 6,528	\$ 5,963							
Contributions as a percentage of covered-employee payroll	23.26%	21.21%	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 18, 2018

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 of America 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, 2017, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated September 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

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(Continued)

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

(Continued)

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

September 18, 2018

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, 2017. 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, 2017.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

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, 2017**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Sub Recipients</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	\$ 46,313	\$ -
Passed through NYS Office of Community Renewal - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	310,277	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285-HR-303-14	71,063	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285-HR-328-15	256,756	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285-PW-33-14	496,150	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285ME2-16	5,326	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285ME2-14	2,631	-
Total passed through NYS Office of Community Renewal			1,142,203	-
Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		1,188,516	-
Home Investment Partnership Program	14.239	N/A	361,575	-
Total U.S. Department of Housing and Urban Development			1,550,091	-
U.S. Department of Justice:				
Bulletproof Vest Partnership Program	16.607	N/A	9,340	-
Public Safety Partnership and Community Policing Grants	16.710	N/A	53,733	-
Total U.S. Department of Justice			63,073	-
U.S. Department of Homeland Security:				
Assistance to Firefighters Grant	97.044	N/A	57,241	-
Disaster Grants - Public Assistance	97.036	N/A	70,650	-
Homeland Security Grant Program	97.067	N/A	63,175	-
Total U.S. Department of Homeland Security			191,066	-
Total Expenditures of Federal Awards			\$ 1,804,230	\$ -

CITY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2017

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, 2017. 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 expenditure

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

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 ☒ No

Significant deficiencies identified not considered to be material weaknesses?

☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiencies identified not considered to be material weaknesses?

☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

☐ Yes ☒ No

Identification of major programs:

CFDA Number

Name of Federal Program

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?

☒ Yes ☐ No

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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

None.

SECTION C

NEW YORK STATE SINGLE AUDIT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY DRAFT PART 43 OF THE NYSCRR**

September 18, 2018

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

Report on Compliance of the State Transportation Assistance Program

We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the City's state transportation assistance program tested for the year ended December 31, 2017. The City's state transportation assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of state statutes, regulations, and the terms and conditions of its state awards applicable to its state transportation assistance programs.

Auditor's Responsibility

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

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

Opinion on State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program tested for the year ended December 31, 2017.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE
STATE TRANSPORTATION ASSISTANCE PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY DRAFT PART 43 OF THE NYSCRR**

(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance programs tested to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance programs and to test and report on internal control over compliance in accordance with Draft Part 43 of the NYCRR, 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 the state transportation assistance program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the state transportation assistance program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the state transportation program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

CITY OF CORTLAND, NEW YORK**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Program Title</u>	<u>NYSDOT Contract/ Ref. Number</u>	<u>Expenditures</u>
Non-Federal Capital Projects Cluster: State-aid Local Bridge Program	N/A	\$ 602,162
Consolidated Local Street and Highway Improvement Program (CHIPS)	N/A	<u>282,739</u>
Total Non-Federal Capital Projects Cluster		<u>884,901</u>
NYS Transportation Enhancement Program	N/A	114,860
State-aid Multi Modal Program	N/A	12,145
PAVENY	N/A	64,538
Extreme Winter Recovery	N/A	<u>42,225</u>
		<u>\$ 1,118,669</u>

The accompanying notes are an integral part of this schedule.

CITY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2017

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. INDIRECT COSTS

There are no indirect costs in the accompanying schedule.

4. MATCHING COSTS

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

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2017

Summary of Audit Results

Internal control over state transportation assistance expended:

- No material weaknesses or significant deficiencies were reported

Type of auditor's report issued on compliance for programs tested:

- Unmodified

Identification of State Transportation Assistance Programs tested:

- Non-Federal Capital Projects Cluster:
 - State-aid Local Bridge Program
 - Consolidated Local Street and Highway Improvement Program (CHIPS)

Compliance Findings and Questioned Costs:

- No findings noted

State Transportation Assistance Findings and Questioned Costs

None