

**COUNTY OF CORTLAND, NEW YORK**

**Basic Financial Statements  
December 31, 2013  
Together with  
Independent Auditor's Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

# COUNTY OF CORTLAND, NEW YORK

## TABLE OF CONTENTS DECEMBER 31, 2013

---

	<u>Page</u>
<b>SECTION A – BASIC FINANCIAL STATEMENTS</b>	
INDEPENDENT AUDITOR'S REPORT .....	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) .....	4 - 11
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements -	
Statement of Net Position .....	12
Statement of Activities and Change in Net Position .....	13
Fund Financial Statements -	
Governmental Funds	
Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities and Change in Net Position .....	17
Proprietary Funds	
Statement of Net Position .....	18
Statement of Revenues, Expenses, and Changes in Net Position .....	19
Statement of Cash Flows.....	20
Fiduciary Funds	
Statement of Fiduciary Net Position .....	21
Component Units	
Statement of Net Position .....	22
Statement of Activities and Change in Net Position.....	23
Statement of Cash Flows.....	24
Notes to Basic Financial Statements .....	25 - 53
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual - General Fund .....	54
Statement of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual - County Road Fund .....	55
Statement of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual - Road Machinery Fund .....	56

# COUNTY OF CORTLAND, NEW YORK

## TABLE OF CONTENTS DECEMBER 31, 2013 (Continued)

---

### SECTION B - OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	57 - 58
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133 .....	59 - 60
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	61 - 62
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	63 - 64
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	65 - 67

### SECTION C - NEW YORK STATE SINGLE AUDIT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE.....	68 - 69
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED .....	70
NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED .....	71
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED .....	72

**SECTION A**

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

## INDEPENDENT AUDITOR'S REPORT

September 25, 2014

To the County Legislature of the  
County of Cortland, New York:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Cortland, New York (the County) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Cortland County Industrial Development Agency (the Agency) which represents 17.1%, 23.1%, and 12.4% of the assets, net position, and revenues, respectively, of the discretely presented component units. We did not audit the financial statements of the Cortland Tobacco Asset Securitization Corporation (CTASC) which represents 2.7%, 4.4%, and 0.7% of the assets, fund balances, and revenues, respectively, of each major fund.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Agency which represents 17.1%, 23.1%, and 12.4% of the assets, net position, and revenues, respectively, of the discretely presented component units. We did not audit the financial statements of the CTASC which represents 2.7%, 4.4%, and 0.7% of the assets, fund balances and revenues, respectively, of each major fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and CTASC, are based solely on the reports of the other auditors. We conducted our audit in accordance with 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. 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.

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### ***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County, as of December 31, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States.

### **Correction of Error**

As described in Note 2 to the financial statements, the prior year financial statements of the County were not properly presented as grants receivable was understated in the General Fund by \$679,146. This error occurred because the County did not consistently record grants on the modified accrual basis of accounting in the fund financial statements. Also, the government-wide financial statements and internal service funds for the year ended December 31, 2012 were improperly presented because liabilities were understated by \$3,836,817 because the County historically has recorded workers' compensation and self-insurance claims as they are billed instead of having a liability for known and incurred but not reported (IBNR) claims as generally accepted accounting principles require. Our opinion is not modified with respect to that matter.

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

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4-11 and budgetary comparison information on pages 54-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Supplementary Information**

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

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### **Report on Supplementary Information (Continued)**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

## **COUNTY OF CORTLAND, NEW YORK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2013**

---

The following is management's discussion and analysis of the County of Cortland, New York's (the County's) financial performance for the year ended December 31, 2013. This section is a summary of the County's financial activities based on current known facts, decisions, and conditions. It is also based on both the government-wide and fund financial statements. This section is only an introduction and should be read in conjunction with the County's basic financial statements, which immediately follow this section.

#### **FINANCIAL HIGHLIGHTS**

In 2013, the net position of the County's primary government decreased by approximately \$10,487,000 from operating activities. There were also prior period adjustments which decreased net position by approximately \$3,158,000.

The assets of the County's primary government exceeded its liabilities at December 31, 2013 by \$50,588,155 of which \$59,420,816 represents the County's net investment in capital assets.

The County's governmental funds reported a decrease in fund balance in 2013 of \$417,645.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, including the notes to financial statements; required supplementary information; and an optional section that presents the schedule of expenditures of federal awards and the schedule of expenditures of state transportation awards. The basic financial statements include two kinds of statements that present different views of the County, government-wide and fund financial statements. The following are some highlights of the financial statements:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the County's overall financial status.
- The remaining fund financial statements focus on individual parts of the County government that report the County's operations in more detail than the government-wide financial statements. The governmental funds statements indicate how general government services were financed in the short-term, as well as what remains for future spending.
- Proprietary fund financial statements offer short and long-term financial information about the activities the County operates similar to a business.
- Fiduciary fund financial statements provide information about financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources belong.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.
- The financial statements are followed by a section of required supplementary information that provides budgetary information for the County's General Fund, County Road Fund, and Road Machinery Fund.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Government-Wide Financial Statements

The government-wide financial statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities and change in net position regardless of when cash is received or paid.

The government-wide financial statements require that capital assets (infrastructure, including roads, bridges, etc.) be valued and reported within the governmental activities column of the government-wide statements. The County depreciates these assets over their estimated useful lives. If a road project is considered maintenance, (i.e., a recurring cost that does not extend the road's original useful life or expand its capacity) the cost of the project is expensed as incurred.

The two government-wide financial statements report the County's net position and how they have changed. Net position, the difference between the County's assets and liabilities, is one way to measure the County's financial health. Over time, increases or decreases in the County's net position is an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the County, one must also consider additional non-financial factors, such as changes in the County's property tax base, the condition of the County's roads and infrastructure, and surpluses or deficits in services provided by the County.

The government-wide financial statements of the County are divided into three categories:

- Governmental Activities - Most of the County's basic services are included here, such as public safety, educational programs, public works, public health, mental health, human services, culture and recreation programs, and general administration. Property taxes, sales taxes, mortgage taxes, franchise fees, and state and federal grants finance most of these activities. Also included in the governmental activities is the County's blended component unit, the Cortland Tobacco Asset Securitization Corporation (CTASC). The Internal Service Funds' governmental activities are the Self Insurance Fund and the Workers' Compensation Fund.
- Business-Type Activities - The County charges fees to other funds to cover most of the costs of certain services it provides. Business-type activities include the County's Solid Waste Fund.
- Component Units - The County's component units report the activities of the Cortland County Industrial Development Agency (IDA), and the Cortland County Soil and Water Conservation District (SWCD) that are described in detail in the notes to the financial statements. Although legally separate, these component units are important because the County is financially accountable for them.

### Fund Financial Statements

The fund financial statements provide detailed information about the County's most significant funds, not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The County Legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Fund Financial Statements (Continued)

The County has three kinds of funds:

- Governmental Funds - Most of the County's basic services are included in governmental funds, which focus on how cash and other financial assets flow in and out of those funds and the balances remaining at year-end that are available for future allocation. The governmental funds' financial statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, there is additional information in the subsequent pages that explains the relationship or differences between them.
- Proprietary Funds - Proprietary funds, like the government-wide financial statements, provide both long-term and short-term financial information. The County's Solid Waste Fund is accounted for using the accrual basis of accounting, i.e., revenues are recorded when earned and expenses are recorded when incurred.
- Fiduciary Funds - The County is the trustee, or fiduciary, for assets that because of a trust agreement can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position and, when applicable, a statement of change in fiduciary net position. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The statement of net position provides perspective of the County as a whole.

(Table 1)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS:</b>						
Current and other assets	\$ 39,090	\$ 37,077	\$ 1,680	\$ 1,974	\$ 40,770	\$ 39,051
Capital assets, net	<u>84,998</u>	<u>89,647</u>	<u>11,156</u>	<u>12,055</u>	<u>96,154</u>	<u>101,702</u>
Total assets	<u>124,088</u>	<u>126,724</u>	<u>12,836</u>	<u>14,029</u>	<u>136,924</u>	<u>140,753</u>
<b>LIABILITIES:</b>						
Other liabilities	14,147	7,797	3,748	4,260	17,895	12,057
Long-term debt - due in one year	1,993	2,135	383	367	2,376	2,502
Long-term debt - due in more than one year	<u>56,179</u>	<u>51,692</u>	<u>9,886</u>	<u>10,270</u>	<u>66,065</u>	<u>61,962</u>
Total liabilities	<u>72,319</u>	<u>61,624</u>	<u>14,017</u>	<u>14,897</u>	<u>86,336</u>	<u>76,521</u>

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)**

**(Table 1) (Continued)**

**Condensed Statement of Net Position  
December 31, 2013 and 2012  
(In Thousands)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
NET POSITION:						
Net investment in capital assets	58,534	69,128	887	1,418	59,421	70,546
Restricted	5,837	5,735	1,066	1,313	6,903	7,048
Unrestricted	<u>(12,602)</u>	<u>(9,762)</u>	<u>(3,134)</u>	<u>(3,599)</u>	<u>(15,735)</u>	<u>(13,361)</u>
Total net position	<u>\$ 51,769</u>	<u>\$ 65,100</u>	<u>\$ (1,181)</u>	<u>\$ (868)</u>	<u>\$ 50,589</u>	<u>\$ 64,233</u>

Net position of the County's primary government decreased 21% from approximately \$64,233,000 to \$50,589,000 at December 31, 2013. The majority of the net position is invested in capital assets such as land, land improvements, buildings, equipment, and roads. The overall decrease in the net position of the primary government is a result of the following:

- In governmental activities, capital assets, net of accumulated depreciation, decreased by approximately \$4,649,000, or 5.2%. The capital asset depreciation expense in 2013 outpaced the amount of capital additions.
- Other liabilities increased \$6,385,000 which is primarily due to a borrowing of a \$1,600,000 Bond Anticipation Note for certain improvements to roads and bridges and an increase in liabilities of the workers' compensation and self-insurance liabilities of approximately \$4 million. Payments made for existing serial bonds were in accordance with expected amortization schedules.
- The other postemployment benefits expense increased approximately \$5,677,000 because of the additional liability accrued based on the actuarial valuation.

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)**

**(Table 2)**

**Changes in Net Position  
for the Years Ended  
December 31, 2013 and 2012  
(In Thousands)**

	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		Total Primary <u>Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES:</b>						
Program revenues -						
Charges for services	\$ 8,799	\$ 9,339	\$ 1,511	\$ 1,736	\$ 10,310	\$ 11,075
Operating grants and contributions	26,931	27,859	-	11	26,931	27,870
Capital grants and contributions	3,724	5,298	-	-	3,724	5,298
General revenues -						
Real property taxes and items	32,707	34,388	-	-	32,707	34,388
Nonproperty tax items	29,356	28,670	-	-	29,356	28,670
Use of money and property	2,841	2,551	1	3	2,842	2,554
Miscellaneous local sources	994	852	-	-	994	852
Interfund transfers	-	(251)	-	251	-	-
Total revenues	<u>105,352</u>	<u>108,706</u>	<u>1,512</u>	<u>2,001</u>	<u>106,864</u>	<u>110,707</u>
<b>EXPENSES:</b>						
Program expenses -						
General governmental support	23,038	23,447	-	-	23,038	23,447
Education	4,417	4,997	-	-	4,417	4,997
Public safety	15,448	11,316	-	-	15,448	11,316
Public health	11,205	12,637	-	-	11,205	12,637
Transportation	20,799	15,995	-	-	20,799	15,995
Economic assistance	36,396	36,705	-	-	36,396	36,705
Culture and recreation	936	360	-	-	936	360
Home and community	2,011	1,519	-	-	2,011	1,519
Debt interest	1,276	779	-	-	1,276	779
Business-type activities	-	-	1,825	2,411	1,825	2,411
Total expenses	<u>115,526</u>	<u>107,755</u>	<u>1,825</u>	<u>2,411</u>	<u>117,351</u>	<u>110,166</u>
Increase (decrease) in net position	<u>\$ (10,174)</u>	<u>\$ 951</u>	<u>\$ (313)</u>	<u>\$ (410)</u>	<u>\$ (10,487)</u>	<u>\$ 541</u>

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)

### Governmental Activities

- General Governmental Support - Includes expenses of the County Legislature, County Offices and administration, contracted professional services, buildings and grounds maintenance, and insurance. The approximate \$409,000 decrease from 2012 was due to decreases in certain professional expenses offset by increases in wages and benefits.
- Education - Includes working with people to assist in job preparation, job skills, and job placement.
- Public Safety - Includes the expenses for the Sheriff and Safety Inspection Departments. The increase of approximately \$4,132,000 in this category was primarily due to increased expenses related to maintenance of the bridges.
- Transportation - Includes salaries for employees in the transportation department and the cost of repairing and maintaining County roads and sidewalks. The increase of approximately \$4,805,000 was because of certain projects in 2013 that did not occur in 2012; including road, bridge, and culvert improvement projects.
- Public Health - Includes services provided for public and mental health.
- Economic Assistance - Includes expenses for the County's counseling services, nutrition program, and community development.
- Culture and Recreation - Includes the costs associated with maintaining the County's historical society, as well as costs related to youth development programs.
- Home and Community Services - Includes the salaries for employees and costs associated with maintaining the County's zoning, environmental, and planning boards.
- Debt Interest - Includes the transactions associated with the payment of interest and other related charges to debt for improvements to the County.
- Depreciation - Includes expenses for capital assets allocated to all departments/functions based on their remaining useful lives.

### THE COUNTY'S MAJOR GOVERNMENTAL FUNDS

The focus of the governmental fund financial statements is on the major funds. The County's main operating fund, the General Fund, is always reported as a major fund. Other individual funds are reported as major funds when assets, liabilities, revenues, or expenditures exceed certain thresholds. For the year ended December 31, 2013, the County Road Fund, Special Grant Fund, Road Machinery Fund, Debt Service Fund, and Capital Projects Fund are reported as major funds.

## GENERAL FUND BUDGETARY HIGHLIGHTS

- The County's original expenditure budget of \$97,723,621 differs from the General Fund's revised budget of \$99,070,759. This increase was due to the budgetary amendments made during the year.
- Total revenues in the General Fund were approximately \$2,125,000 less than the final budget. This negative variance was primarily due to shortfalls in State and Federal Aid of approximately \$415,000 and \$1,119,000, respectfully. The decrease in aid is due to a decrease from New York State budget cuts and the loss of certain federal aid, including Federal Salary Sharing funds. However, the County was approximately \$1,126,000 more than budgeted on its nonproperty tax items due to an increase in sales tax.
- The General Fund's actual expenditures were approximately \$6 million less than the final budget. This was due primarily to the positive effects of cost containment efforts made throughout the year.

## CAPITAL ASSETS AND SHORT AND LONG-TERM DEBT ADMINISTRATION

### Capital Assets

At December 31, 2013, the primary government of the County had approximately \$85 million invested in land, buildings, land improvements, infrastructure, and machinery, equipment, and vehicles net of accumulated depreciation. There were approximately \$4.4 million of capital additions during the year offset by \$9 million of depreciation and amortization expense.

Additional information on the County's capital assets can be found in the notes to the financial statements.

### Long-Term Liabilities

At December 31, 2013, the County had \$68,441,656 in long-term liabilities, as follows:

	<u>2013</u>	<u>2012</u>
Serial bonds, excluding CTASC	\$ 23,070,000	\$ 23,935,000
CTASC serial bonds, net	12,604,264	12,553,988
Capital lease	6,425,872	7,220,745
Early termination benefits	173,115	259,672
Other postemployment benefits	24,450,214	18,773,285
Compensated absences	<u>1,718,191</u>	<u>1,720,974</u>
Total	<u>\$ 68,441,656</u>	<u>\$ 64,463,664</u>

The amount of principal paid on outstanding serial bonds (excluding CTASC) was approximately \$865,000 in 2013. In addition, the actuarial valuation of the other postemployment benefits liability increased by approximately \$5.7 million during 2013. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

## **CONTACTING THE COUNTY'S FINANCE DEPARTMENT**

These financial statements are designed to report and provide the County's citizens, taxpayers, customers, investors, and creditors with a general overview of the County's financial operations and to demonstrate the County's accountability for the money it receives. If you have any questions about these statements or need additional financial information, contact the County of Cortland, County Administrator, 60 Central Avenue, Cortland, New York 13045.

**COUNTY OF CORTLAND, NEW YORK**

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

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	Proprietary
<b>ASSETS</b>				
Cash and cash equivalents	\$ 16,706,448	\$ 486,689	\$ 17,193,137	\$ 2,429,529
Cash and cash equivalents - restricted	953,759	1,066,112	2,019,871	873,933
Accounts receivable	30,712	112,291	143,003	-
Taxes receivable, net	5,504,974	-	5,504,974	-
State and federal aid receivable	8,479,108	-	8,479,108	-
Investment in Railroad Land	-	-	-	209,818
Due from other governments	5,473,957	-	5,473,957	-
Prepaid expenses and other assets	1,239,289	14,974	1,254,263	15,586
Tobacco settlement receivables	701,352	-	701,352	-
Capital assets, net	<u>84,998,300</u>	<u>11,156,251</u>	<u>96,154,551</u>	<u>20,958</u>
Total assets	<u>124,087,899</u>	<u>12,836,317</u>	<u>136,924,216</u>	<u>3,549,824</u>
<b>LIABILITIES</b>				
Accounts payable	3,726,709	16,784	3,743,493	22,168
Accrued liabilities	5,374,487	14,582	5,389,069	-
Compensated absences	-	-	-	27,936
Bond anticipation note	1,600,000	-	1,600,000	-
Due to other funds, net	(33,754)	36,559	2,805	-
Due to other governments	3,119,470	-	3,119,470	-
Closure and post-closure liability	-	3,679,563	3,679,563	-
Unearned revenues	360,005	-	360,005	863,930
Long-term liabilities -				
Due within one year	1,993,198	383,290	2,376,488	-
Due in more than one year	<u>56,178,778</u>	<u>9,886,390</u>	<u>66,065,168</u>	<u>-</u>
Total liabilities	<u>72,318,893</u>	<u>14,017,168</u>	<u>86,336,061</u>	<u>914,034</u>
<b>NET POSITION</b>				
Net investment in capital assets	58,534,245	886,571	59,420,816	230,776
Restricted -				
Debt service	810,158	-	810,158	-
Law	5,026,306	1,066,112	6,092,418	-
Grantors	-	-	-	10,003
Unrestricted	<u>(12,601,703)</u>	<u>(3,133,534)</u>	<u>(15,735,237)</u>	<u>2,395,011</u>
Total net position	<u>\$ 51,769,006</u>	<u>\$ (1,180,851)</u>	<u>\$ 50,588,155</u>	<u>\$ 2,635,790</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

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

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position						
		Program Revenue			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Proprietary
<b>PRIMARY GOVERNMENT:</b>								
Governmental activities -								
General government support	\$ 23,038,180	\$ 1,959,081	\$ 398,536	\$ 2,501,737	\$ (18,178,826)	\$ -	\$ (18,178,826)	
Education	4,416,671	-	912,609	-	(3,504,062)	-	(3,504,062)	
Public safety	15,448,019	738,259	474,213	-	(14,235,547)	-	(14,235,547)	
Public health	11,205,296	2,909,747	5,468,187	-	(2,827,362)	-	(2,827,362)	
Transportation	20,799,551	1,353,359	2,967,155	1,222,540	(15,256,497)	-	(15,256,497)	
Economic assistance and opportunity	36,395,564	1,508,578	16,597,212	-	(18,289,774)	-	(18,289,774)	
Culture and recreation	935,751	8,704	43,435	-	(883,612)	-	(883,612)	
Home and community services	2,010,736	321,482	69,649	-	(1,619,605)	-	(1,619,605)	
Interest	1,276,484	-	-	-	(1,276,484)	-	(1,276,484)	
Total governmental activities	<u>115,526,252</u>	<u>8,799,210</u>	<u>26,930,996</u>	<u>3,724,277</u>	<u>(76,071,769)</u>	<u>-</u>	<u>(76,071,769)</u>	
Business-type activities -								
Solid Waste Fund	<u>1,825,407</u>	<u>1,510,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(314,544)</u>	<u>(314,544)</u>	
Total business-type activities	<u>1,825,407</u>	<u>1,510,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(314,544)</u>	<u>(314,544)</u>	
Total primary government	<u>\$ 117,351,659</u>	<u>\$ 10,310,073</u>	<u>\$ 26,930,996</u>	<u>\$ 3,724,277</u>	<u>(76,071,769)</u>	<u>(314,544)</u>	<u>(76,386,313)</u>	
<b>COMPONENT UNITS:</b>								
Proprietary -								
Industrial Development Agency	\$ 168,995	\$ 282,213	\$ -	\$ -				\$ 113,218
Soil and Water Conservation District	<u>1,540,057</u>	<u>27,076</u>	<u>1,698,787</u>	<u>-</u>				<u>185,806</u>
Total component units	<u>\$ 1,709,052</u>	<u>\$ 309,289</u>	<u>\$ 1,698,787</u>	<u>\$ -</u>				<u>299,024</u>
<b>GENERAL REVENUES:</b>								
Real property taxes and real property tax items					32,706,754	-	32,706,754	-
Nonproperty tax items					29,356,481	-	29,356,481	-
Sale of property and compensation for loss					37,586	-	37,586	-
Use of money and property					2,840,671	1,737	2,842,408	13,292
Intergovernmental transfer					-	-	-	255,984
Miscellaneous					<u>956,365</u>	<u>-</u>	<u>956,365</u>	<u>15,468</u>
Total general revenues					<u>65,897,857</u>	<u>1,737</u>	<u>65,899,594</u>	<u>284,744</u>
Change in net position					<u>(10,173,912)</u>	<u>(312,807)</u>	<u>(10,486,719)</u>	<u>583,768</u>
Net position - beginning of year, as previously reported					65,100,589	(868,044)	64,232,545	2,052,022
Prior period adjustments (Note 2)					<u>(3,157,671)</u>	<u>-</u>	<u>(3,157,671)</u>	<u>-</u>
Net position - beginning of year, as restated					<u>61,942,918</u>	<u>(868,044)</u>	<u>61,074,874</u>	<u>2,052,022</u>
Net position - end of year					<u>\$ 51,769,006</u>	<u>\$ (1,180,851)</u>	<u>\$ 50,588,155</u>	<u>\$ 2,635,790</u>

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

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

	Special Revenue Funds						Total
	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund	Debt Service Fund	
<b>ASSETS</b>							
Cash and cash equivalents - unrestricted	\$ 6,966,675	\$ 1,556,231	\$ 12,696	\$ 1,159,088	\$ 3,589,351	\$ 113,294	\$ 13,397,335
Cash and cash equivalents - restricted	143,601	-	-	-	-	810,158	953,759
Due from Federal and State governments	8,069,164	-	21,708	-	388,236	-	8,479,108
Taxes receivable	5,504,974	-	-	-	-	-	5,504,974
Due from other governments	2,404,596	4,316	-	280,925	-	-	2,689,837
Prepaid expenditures	1,119,977	92,337	-	18,717	-	3,536	1,234,567
Due from other funds	<u>1,385,736</u>	<u>124,972</u>	<u>67</u>	<u>24,050</u>	<u>453,053</u>	<u>-</u>	<u>1,987,878</u>
Total assets	<u>\$ 25,594,723</u>	<u>\$ 1,777,856</u>	<u>\$ 34,471</u>	<u>\$ 1,482,780</u>	<u>\$ 4,430,640</u>	<u>\$ 926,988</u>	<u>\$ 34,247,458</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Accounts payable	\$ 2,700,979	\$ 334,741	\$ -	\$ 94,952	\$ 5,993	\$ 8,000	\$ 3,144,665
Accrued liabilities	639,747	63,015	-	13,942	-	-	716,704
Due to other funds	1,109,032	122,842	67	108,728	1,205,143	-	2,545,812
Bond anticipation note	-	1,600,000	-	-	-	-	1,600,000
Due to other governments	3,119,470	-	-	-	-	-	3,119,470
Unearned revenues	<u>325,621</u>	<u>-</u>	<u>34,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,005</u>
Total liabilities	<u>7,894,849</u>	<u>2,120,598</u>	<u>34,451</u>	<u>217,622</u>	<u>1,211,136</u>	<u>8,000</u>	<u>11,486,656</u>
<b>DEFERRED INFLOWS:</b>							
Deferred taxes	<u>1,655,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,655,333</u>
Total deferred inflows	<u>1,655,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,655,333</u>
<b>FUND BALANCES:</b>							
Nonspendable	1,119,977	92,337	-	18,717	-	3,536	1,234,567
Restricted	1,814,148	37,657	-	25,519	3,148,982	810,158	5,836,464
Assigned	1,003,393	-	20	1,220,922	70,522	105,294	2,400,151
Unassigned	<u>12,107,023</u>	<u>(472,736)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,634,287</u>
Total fund balances	<u>16,044,541</u>	<u>(342,742)</u>	<u>20</u>	<u>1,265,158</u>	<u>3,219,504</u>	<u>918,988</u>	<u>21,105,469</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 25,594,723</u>	<u>\$ 1,777,856</u>	<u>\$ 34,471</u>	<u>\$ 1,482,780</u>	<u>\$ 4,430,640</u>	<u>\$ 926,988</u>	<u>\$ 34,247,458</u>

The accompanying notes are an integral part of these statements.

# COUNTY OF CORTLAND, NEW YORK

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

---

Total fund balance - governmental funds \$ 21,105,469

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	\$ 162,553,257	
Accumulated depreciation	<u>(77,554,957)</u>	
		84,998,300

Revenue related to the tax levy is recognized when earned in the statement of activities and change in net position, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end. 1,655,333

Tobacco settlement revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unearned in the funds. 701,352

Amounts due from other governments will be collected in the future and therefore is not available to pay for current period expenditures and is not accrued in the governmental funds. 2,784,120

Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred. (510,008)

The net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position. (793,584)

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 - County	\$ (12,800,320)	
Bonds payable - CTASC	(12,604,264)	
Compensated absences	(1,718,191)	
Capital lease	(6,425,872)	
Other postemployment benefits	(24,450,214)	
Early termination benefits	<u>(173,115)</u>	
		<u>(58,171,976)</u>

Total net position of governmental activities \$ 51,769,006

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

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

	Special Revenue Funds						Total
	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund	Debt Service Fund	
REVENUES:							
Real property taxes and tax items	\$ 32,890,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,890,840
Nonproperty tax items	29,356,481	-	-	-	-	-	29,356,481
Departmental income	7,496,077	10,602	-	-	-	-	7,506,679
Intergovernmental charges	362,832	745,461	-	304,966	-	-	1,413,259
Use of money and property	233,425	1,185	44	2,549,554	4	53,645	2,837,857
Fines and forfeitures	164,272	-	-	-	-	-	164,272
Interfund revenue	-	60,677	-	252,013	-	-	312,690
Sale of property and compensation for loss	10,539	5	-	49,460	-	-	60,004
Miscellaneous	251,935	2,035	-	1,479	-	701,352	956,801
State aid	14,437,061	1,629,491	-	-	2,587,145	-	18,653,697
Federal aid	9,635,699	-	743,206	-	1,622,671	-	12,001,576
Total revenues	94,839,161	2,449,456	743,250	3,157,472	4,209,820	754,997	106,154,156
EXPENDITURES:							
General governmental support	21,438,486	-	-	-	-	33,354	21,471,840
Education	4,089,147	-	-	-	-	-	4,089,147
Public safety	12,408,317	184,312	-	-	2,774,903	-	15,367,532
Public health	9,780,633	-	-	-	-	-	9,780,633
Transportation	1,143,340	8,772,615	-	2,548,694	2,338,836	-	14,803,485
Economic assistance and opportunity	33,611,175	-	743,236	-	-	-	34,354,411
Culture and recreation	304,050	-	-	-	-	-	304,050
Home and community services	1,137,111	119,947	-	-	82,945	-	1,340,003
Employee benefits	2,577,482	-	-	-	-	-	2,577,482
Debt service -							
Principal	339,760	85,520	-	72,730	794,873	230,000	1,522,883
Interest	323,896	86,643	-	77,352	-	472,444	960,335
Total expenditures	87,153,397	9,249,037	743,236	2,698,776	5,991,557	735,798	106,571,801
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,685,764	(6,799,581)	14	458,696	(1,781,737)	19,199	(417,645)
OTHER FINANCING SOURCES (USES):							
Operating transfers - in	264,692	5,219,069	-	-	979,742	-	6,463,503
Operating transfers - out	(6,025,961)	-	-	(419,612)	(17,930)	-	(6,463,503)
Total other financing sources (uses)	(5,761,269)	5,219,069	-	(419,612)	961,812	-	-
CHANGE IN FUND BALANCE	1,924,495	(1,580,512)	14	39,084	(819,925)	19,199	(417,645)
FUND BALANCE - beginning of year, as previously reported	13,440,900	1,237,770	6	1,226,074	4,039,429	899,789	20,843,968
Prior period adjustment (Note 2)	679,146	-	-	-	-	-	679,146
FUND BALANCE - beginning of year, as restated	14,120,046	1,237,770	6	1,226,074	4,039,429	899,789	21,523,114
FUND BALANCE - end of year	\$ 16,044,541	\$ (342,742)	\$ 20	\$ 1,265,158	\$ 3,219,504	\$ 918,988	\$ 21,105,469

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

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

Net change in fund balances - governmental funds	\$	(417,645)
Amounts reported for governmental activities in the statement of activities and change in net position are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources.		
Also, depreciation expense is recorded in the statement of activities over the estimated useful lives of the assets, but not as a change in fund balance of the governmental funds as there is no cash outlay associated with the expense.		
Capital additions	\$	4,389,722
Depreciation		<u>(9,016,058)</u>
		(4,626,336)
Losses on disposal of assets are reported in the statement of activities and change in net position, but are not included in the governmental funds.		(22,418)
Current year payments on amounts due from other governments are recorded as a reduction to the outstanding balance on the statement of net position.		(285,000)
Deferred tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements.		(184,086)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,522,883
Tobacco settlement revenues will not be collected for several months after the County's fiscal year-end; therefore, they are not considered "available" revenues and are unearned in the governmental funds. This represents the current year change.		(436)
The change in net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of activities and change in net position.		23,140
Some expenses reported in the statement of activities and change in net position do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	\$	(316,149)
Accretion on CTASC bonds		(275,525)
Bond discount		(4,751)
Early termination benefits		86,557
Compensated absences		2,783
Other postemployment benefits		<u>(5,676,929)</u>
		<u>(6,184,014)</u>
Change in net position of governmental activities	\$	<u>(10,173,912)</u>

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
DECEMBER 31, 2013**

---

	Solid Waste Fund	Internal Service Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 486,689	\$ 3,309,113
Cash and cash equivalents - restricted	1,066,112	-
Accounts receivable, net	112,291	30,712
Due from other funds	7,390	620,550
Prepaid expenses	14,974	4,722
Capital assets, net	<u>11,156,251</u>	<u>-</u>
Total assets	<u>12,843,707</u>	<u>3,965,097</u>
<b>LIABILITIES</b>		
Accounts payable	16,784	582,044
Accrued liabilities	14,582	4,147,775
Due to other funds	43,949	28,862
Closure and post-closure liability	3,679,563	-
Long-term liabilities -		
Due within one year	383,290	-
Due after one year	<u>9,886,390</u>	<u>-</u>
Total liabilities	<u>14,024,558</u>	<u>4,758,681</u>
<b>NET POSITION</b>		
Net investment in capital assets	886,571	-
Restricted	1,066,112	-
Unrestricted	<u>(3,133,534)</u>	<u>(793,584)</u>
Total net position	<u>\$ (1,180,851)</u>	<u>\$ (793,584)</u>

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Solid Waste <u>Fund</u>	Internal Service <u>Funds</u>
REVENUES:		
Charges for services	\$ 1,510,863	\$ 2,874,836
Interfund revenues	<u>-</u>	<u>7,978,062</u>
Total operating revenues	<u>1,510,863</u>	<u>10,852,898</u>
OPERATING EXPENSES:		
Personal services	307,752	53,289
Administrative fees	-	8,867,620
Insurance claims	-	293,787
Workers' compensation	-	1,144,116
Contractual services	-	445,581
Depreciation	900,091	-
Interest	465,975	-
Employee benefits	<u>151,589</u>	<u>28,179</u>
Total operating expenses	<u>1,825,407</u>	<u>10,832,572</u>
Operating income (loss)	<u>(314,544)</u>	<u>20,326</u>
NON-OPERATING REVENUES:		
Use of money and property	<u>1,737</u>	<u>2,814</u>
Total non-operating revenues	<u>1,737</u>	<u>2,814</u>
CHANGE IN NET POSITION	<u>(312,807)</u>	<u>23,140</u>
NET POSITION - beginning of year, as previously reported	(868,044)	3,020,093
Prior period adjustment (Note 2)	<u>-</u>	<u>(3,836,817)</u>
NET POSITION - beginning of year, as restated	<u>(868,044)</u>	<u>(816,724)</u>
NET POSITION - end of year	<u>\$ (1,180,851)</u>	<u>\$ (793,584)</u>

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Solid Waste Fund	Internal Service Funds
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 1,566,746	\$ 10,822,186
Cash payments for contractual expenses	(727,310)	(10,183,027)
Cash payments for salaries and benefits	(459,341)	(81,468)
Net cash flow from operating activities	<u>380,095</u>	<u>557,691</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Use of money and property	<u>1,737</u>	<u>2,814</u>
Net cash flow from investing activities	<u>1,737</u>	<u>2,814</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,587)	-
Principal payments on bonds	(366,990)	-
Net cash flow from capital and related financing activities	<u>(368,577)</u>	<u>-</u>
CHANGE IN CASH AND CASH EQUIVALENTS	13,255	560,505
CASH AND CASH EQUIVALENTS - beginning of year	<u>473,434</u>	<u>2,748,608</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 486,689</u>	<u>\$ 3,309,113</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (314,544)	\$ 20,326
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	900,091	-
Changes in:		
Accounts receivable	57,259	(30,712)
Restricted cash	247,083	-
Due from other funds	(1,376)	298,777
Prepaid expenses	2,830	(2,496)
Due to other funds	19,630	25,114
Closure and post-closure liabilities	(536,367)	-
Accrued liabilities	13,998	309,703
Accounts payable	(8,509)	(63,021)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 380,095</u>	<u>\$ 557,691</u>

The accompanying notes are an integral part of these statements.

**COUNTY OF CORTLAND, NEW YORK**

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

---

	Agency Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 982,473
Due from other funds	<u>10,597</u>
Total assets	<u><u>\$ 993,070</u></u>
<b>LIABILITIES</b>	
Due to other funds	\$ 7,792
Agency liabilities	<u>985,278</u>
Total liabilities	<u><u>\$ 993,070</u></u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

STATEMENT OF NET POSITION - COMPONENT UNITS  
DECEMBER 31, 2013

---

	Cortland County Industrial Development Agency	Cortland County Soil and Water Conservation District	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 393,257	\$ 2,036,272	\$ 2,429,529
Cash and cash equivalents - restricted	-	873,933	873,933
Investment in Railroad Land	209,818	-	209,818
Capital assets	-	20,958	20,958
Prepaid expenses	1,047	14,539	15,586
	<u>604,122</u>	<u>2,945,702</u>	<u>3,549,824</u>
<b>LIABILITIES</b>			
Accounts payable	1,210	20,958	22,168
Compensated absences	-	27,936	27,936
Unearned revenue	-	863,930	863,930
	<u>1,210</u>	<u>912,824</u>	<u>914,034</u>
<b>NET POSITION</b>			
Net investment in capital assets	209,818	20,958	230,776
Restricted	-	10,003	10,003
Unrestricted	393,094	2,001,917	2,395,011
	<u>602,912</u>	<u>2,032,878</u>	<u>2,635,790</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

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

	Cortland County Industrial Development Agency	Cortland County Soil and Water Conservation District	Total
<b>OPERATING REVENUE:</b>			
Charges for services	\$ 276,713	\$ 27,076	\$ 303,789
Allocation from County of Cortland, New York	-	255,984	255,984
Rent and lease income	5,500	-	5,500
Miscellaneous	-	15,468	15,468
Federal and state grants	-	1,698,787	1,698,787
Total operating revenue	<u>282,213</u>	<u>1,997,315</u>	<u>2,279,528</u>
<b>OPERATING EXPENSES:</b>			
Professional and administrative	36,088	-	36,088
Business Park	4,131	-	4,131
Direct grants	-	738,135	738,135
Salaries and benefits	-	654,286	654,286
General and administrative	-	66,065	66,065
Natural resources	-	14,935	14,935
Miscellaneous	-	66,636	66,636
Total operating expenses	<u>40,219</u>	<u>1,540,057</u>	<u>1,580,276</u>
OPERATING INCOME	<u>241,994</u>	<u>457,258</u>	<u>699,252</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>			
Interest income	155	13,137	13,292
Loss on sale of property	(128,776)	-	(128,776)
Total non-operating revenue (expenses)	<u>(128,621)</u>	<u>13,137</u>	<u>(115,484)</u>
CHANGE IN NET POSITION	113,373	470,395	583,768
NET POSITION - beginning of year	<u>489,539</u>	<u>1,562,483</u>	<u>2,052,022</u>
NET POSITION - end of year	<u>\$ 602,912</u>	<u>\$ 2,032,878</u>	<u>\$ 2,635,790</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

STATEMENT OF CASH FLOWS - COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Cortland County Industrial Development Agency	Cortland County Soil and Water Conservation District	Total
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Cash received from providing services	\$ 284,092	\$ 42,544	\$ 326,636
Cash received from grants and Cortland County	23,427	1,944,768	1,968,195
Cash payments for contractual expenses	(35,002)	(878,994)	(913,996)
Cash payments for Business Park expenses	(4,131)	-	(4,131)
Cash payments for salaries and benefits	-	(626,350)	(626,350)
Net cash flow from operating activities	<u>268,386</u>	<u>481,968</u>	<u>750,354</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchases of capital assets	-	(20,958)	(20,958)
Net cash flow from capital and related financing activities	<u>-</u>	<u>(20,958)</u>	<u>(20,958)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Principal paid on mortgages payable	(1,150,000)	-	(1,150,000)
Proceeds on sale of Business Park	1,150,000	-	1,150,000
Purchase option deposit decrease	(100,000)	-	(100,000)
Interest income	155	13,137	13,292
Net cash flow from investing activities	<u>(99,845)</u>	<u>13,137</u>	<u>(86,708)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	168,541	474,147	642,688
CASH AND CASH EQUIVALENTS - beginning of year	<u>224,716</u>	<u>1,562,125</u>	<u>1,786,841</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 393,257</u>	<u>\$ 2,036,272</u>	<u>\$ 2,429,529</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Operating income	\$ 241,994	\$ 457,258	\$ 699,252
Changes in:			
Accounts receivable	25,306	-	25,306
Unearned revenue	-	(160,076)	(160,076)
Restricted cash	-	150,073	150,073
Compensated absences	-	27,936	27,936
Other assets	-	(358)	(358)
Prepaid expenses	68	(13,823)	(13,755)
Accounts payable	1,018	20,958	21,976
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 268,386</u>	<u>\$ 481,968</u>	<u>\$ 750,354</u>

The accompanying notes are an integral part of these statements.

# COUNTY OF CORTLAND, NEW YORK

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Background**

The County of Cortland, New York (the County), incorporated in 1808, is governed by County Law, other general laws of the State of New York, and various local laws and ordinances. The County is a municipal corporation governed by the Board of Legislators. The County Board of Legislators, which is the legislative body responsible for the overall operations of the County, consists of nineteen elected officials. The Chairman of the Board of Legislators serves as Chief Executive Officer and the County Treasurer serves as Chief Fiscal Officer.

The County provides the following basic services: law enforcement, educational assistance for County residents attending community services, maintenance of County roads and general administration.

#### **Financial Reporting Entity**

The accompanying basic financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). All governmental activities performed by the County are its direct responsibility.

The financial reporting entity consists of (a) the primary government which is the County, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the County's financial statements to be misleading or incomplete as set forth under generally accepted accounting principles. A component unit is included in the County's reporting entity if it is both fiscally dependent on the County and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government.

The basic financial statements have been prepared primarily from accounts maintained by the County. Additional data has been derived from reports prescribed by the County Treasurer and prepared by component units based on independent or subsidiary accounting systems maintained by their respective business offices.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial Reporting Entity (Continued)

The accompanying financial statements present the activities of the County as well as the component units and other entities determined to be includable in the County's financial reporting entity. The County is not a component unit of another reporting entity. The decision to include a potential component unit in the County's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Based on application of these criteria, the following is a brief description of certain entities included in the County's reporting entity:

- **Discretely Presented Component Units**

1. **Cortland County Industrial Development Agency**

The Cortland County Industrial Development Agency (the Agency) is a public benefit corporation created in 1974 by state legislation to promote the economic welfare, recreational opportunities, and the prosperity of the County's inhabitants.

The County Legislature appoints the directors of the Agency. However, the directors of the Agency have sole control over the management and operation of the Agency. Further, Agency finances are generated by project revenue bonds and such bonds are secured only to the extent of the assets acquired for the related project. The County is not liable for Agency bonds or notes. The Agency is a proprietary fund type and presented discretely as a component unit of the County.

Financial statements of the Agency may be obtained from its administrative office at: Cortland County Industrial Development Agency, 37 Church Street, Cortland, New York 13045.

2. **Cortland County Soil and Water Conservation District**

The Cortland County Soil and Water Conservation District (the District) was established in accordance with Soil and Water Conservation District Law, to provide for conservation of soil and water resources. Members of the District's Board of Directors are appointed by the County Legislature. However, the directors of the District have sole control over the management and the operation of the District. The District is a proprietary fund type and presented discretely as a component unit of the County. Separate financial statements are not issued by the District.

- **Component Unit - Blended**

Cortland Tobacco Asset Securitization Corporation (CTASC) is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York. CTASC is considered a governmental fund-type component unit (blended presentation) of the County in accordance with generally accepted accounting principles and is reported in a debt service fund. Separate audited financial statements from CTASC may be obtained from CTASC directly by addressing the County Administrator, 60 Central Avenue, Cortland, NY 13045.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation

- **Government - Wide Financial Statements**

The County's basic financial statements include both government-wide (reporting the County as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The County's police, maintenance of county roads, public works, health, educational activities, human services, and general administrative services are classified as governmental activities. The County's Solid Waste Fund is classified as a business-type activity. Fiduciary funds are excluded from the government-wide statements.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and 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 County's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position. The County first utilizes restricted net position and resources to finance qualifying activities.

The government-wide statement of activities and change in net position reports both the gross and net cost of each of the County's functions and business-type activities. The functions are supported by general government revenues, i.e., real property taxes, real property tax items, nonproperty taxes, certain intergovernmental charges, use of money and property, sale of property and compensation for loss, and state and federal aid. The statement of activities reduces gross expenses, including depreciation, by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function or segment. Operating grants include operating-specific and discretionary grants while capital grants reflect capital-specific grants. All direct expenses incurred are charged to the corresponding function. Capital asset additions that cannot be identified with a specific function are allocated based on total expenses by program.

The County allocates indirect costs to all County funds except the General Fund. In addition, interfund activity within the government-wide statements has been eliminated.

The government-wide focus is on the sustainability of the County as a whole entity and the change in the County's net position resulting from the current year's activities.

- **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, component units, and fiduciary funds. Each fund is accounted for by providing a separate self-balancing set of accounts. 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)

### Basis of Presentation (Continued)

- **Fund Financial Statements (Continued)**

#### 1. 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 upon determination of financial position and changes in financial position, rather than upon the flow of economic resources.

The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column. Nonmajor funds are summarized into a single column. Generally accepted accounting principles set forth minimum criteria (percentage of assets/deferred outflows, liabilities/deferred inflows, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds; however, the County can elect to report any fund as a major fund.

#### a) Major Governmental Funds

- **General Fund**

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

- **Debt Service Fund**

The Cortland Tobacco Asset Securitization Corporation (the CTASC) is a not-for-profit corporation established for the purpose of acquiring from the County all or any of the rights, titles, and interests of the County under the Master Settlement Agreement with respect to tobacco related litigation between various settling states and participating manufacturers. The CTASC is an instrumentality of, but separate and apart from, the County. Although legally separate, for financial reporting purposes, the CTASC activities are shown in the debt service fund as its purpose is to solely serve the County.

- **County Road Fund**

This fund is used to account for expenditures for repair and maintenance of County roads in accordance with New York State laws.

- **Special Grant Fund**

This fund is used to account for various state and federally aided programs.

- **Road Machinery Fund**

This fund is used to account for purchases, rentals, repairs, maintenance, and storage of highway machinery, tools, and equipment in accordance with New York State laws.

- **Capital Projects Fund**

This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities or equipment not being financed by proprietary or nonexpendable trust funds.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation (Continued)

- Fund Financial Statements (Continued)

#### 2. Proprietary Fund Types (Business-Type Activities)

The County's proprietary funds are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board.

Proprietary funds include the following fund types:

- **Enterprise Funds**

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred, if measurable. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions.

Enterprise funds include the following:

- a. **Solid Waste Fund**

This fund was established by law to account for solid waste activities, including the County landfill operations and recycling activities.

- **Internal Service Funds**

The Internal Service Funds are used to account principally for the County's risk management activities. The County is self-insured for certain risks and the internal service funds utilized are the following:

- a. **Workers' Compensation Fund**

This fund accounts for the accumulation of resources for payment of compensation assessments and other obligations under Workers' Compensation Law, Article 5.

- b. **Self-Insurance Fund**

This fund is used to account for the accumulation of resources for payment of unemployment insurance as authorized by Section 6M of the General Municipal Law.

#### 3. Fiduciary Fund

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the County acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements because their resources do not belong to the County and are not available to be used.

- **Agency Fund**

This fund is custodial in nature and does not present results of operations or have measurement focus. These funds are monies received and held in the capacity of a trustee, custodian, or agent. The Agency Fund is accounted for using the modified accrual basis of accounting. There is currently no expendable, nonexpendable, or pension trust funds reported by the County.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

- **Accrual Basis**

The government-wide, business-type, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the County gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied.

- **Modified Accrual Basis**

The governmental funds financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period. Material revenues that are to be accrued include real property taxes and nonproperty tax items to be collected within 60 days after year-end. Expenditures are generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. Where expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made, and anticipated to be received within the next reporting period.

### **Assets, Liabilities, and Equity**

- **Cash and Cash Equivalents**

For financial statement purposes, all highly liquid investments having maturities of three months or less are considered cash equivalents and include cash on hand, demand deposits, and short-term certificates of deposit.

- **Taxes Receivable and State and Federal Aid Receivable**

The County establishes an allowance for doubtful accounts based on a review of outstanding amounts and the past history of collections. All trade accounts and property taxes receivable are shown net of an allowance for doubtful accounts of approximately \$34,000 at December 31, 2013.

All amounts due from other governments are deemed fully collectible.

Property taxes levied for 2013 are recorded as receivables, net of the amount estimated to be uncollectible. The property taxes collected during 2013, and expected to be collected within the first sixty days of 2014, are recognized as revenue in 2013. Current and delinquent property taxes receivable estimated to be collectible subsequent to the first sixty days of 2014 is reflected as a deferred inflow. At December 31, 2013, the County's general fund had recorded \$1,655,333 of real property tax revenue as a deferred inflow.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities, and Equity (Continued)

- **Interfund Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables/payables or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds.

- **Postemployment Benefits**

The County provides certain health care benefits for retired employees of the County. The County administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB). In general, the County provides health insurance coverage for retired employees and their survivors. Substantially all the County's employees may become eligible for this benefit if they retire with 25 years of service to the County. On the government-wide statements, these amounts attributable to past service have been recorded as a liability.

- **Property Taxes**

The authority for levying taxes for the support of County and town government, inclusive of special districts, and for relieved unpaid school taxes, has been delegated by the State Legislature to the governing board of the County through various provisions of the Real Property Tax Law. For purposes of both County and town taxes, the value of real property is listed and established by the towns for each parcel of real property therein. Amounts to be raised by taxes are determined from balanced budgets of the County and the towns. Unpaid school taxes are purchased from each school district and village and added to tax levies and until paid, are counted among the assets of the County. The County thus acquires all rights, title, and interest in any unpaid balances. Any such taxes remaining unpaid at the time of the tax sale are sold along with any other unpaid taxes subject to County enforcement.

Real property taxes are levied on or before December 31 on the full-assessed value of all real property located within the County and become a lien on January 1. Taxes for County purposes apportioned to the area of the County outside the City of Cortland, New York (the City) are levied together with taxes for town and special district purposes as a single bill. The towns and special districts receive the full amount of their levies annually out of the first enforcement responsibility for all taxes levied in the towns. The collection of County taxes levied on properties within the City is enforced by the City; the County receives the full amount of such taxes within the year of the levy.

- **Capital Assets**

Capital assets which include buildings, machinery and equipment, and infrastructure (i.e. roads, bridges, and similar items), purchased or acquired, are reported at historical cost or estimated historical cost. Donated 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. Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed as occurred.

Generally accepted accounting principles require the County to report and depreciate new infrastructure assets. Infrastructure assets include such items as: roads, bridges, underground pipe (other than related utilities), etc. These infrastructure assets are the largest asset class of the County.

Depreciation on all assets is provided on the straight-line basis over the following useful lives as follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities, and Equity (Continued)**

• **Capital Assets (Continued)**

**a. Primary Government**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements	10 - 20 years
Buildings and improvements	50 years
Machinery and equipment	5 - 15 years
Infrastructure	20 - 65 years

**b. Enterprise Funds - Solid Waste Fund**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements	10 - 20 years
Buildings and improvements	50 years
Equipment and fixtures	5 - 15 years

**c. Component Units Discretely Presented**

**1. Soil and Water Conservation District and Cortland County Industrial Development Agency**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements/infrastructure	50 years
Buildings	40 years
Furniture, fixtures and equipment	3 - 15 years

**a. Compensated Absences**

County employees are granted vacation, sick leave, and compensatory leave benefits as defined in agreements between the County and the representative collective bargaining units. An individual who leaves the employ of the County is entitled to be paid for unused vacation leave and compensatory leave. Upon retirement, the unused sick leave may be applied towards additional service credit pursuant to the Retirement and Social Security Law; therefore, no payments are made for unused sick leave.

Vacation and compensatory leave is accrued when incurred in the statement of net position and is reported as a liability in the government-wide financial statements.

**b. Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when the County receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met or when the County has legal claim to the resources, the unearned revenue is recognized as revenue.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities, and Equity (Continued)

#### c. Long-Term Obligations

Long-term obligations represent the County's future obligations or future economic outflows. The liabilities are reported as due within one year or due in more than one year in the statement of net position.

#### d. Net Position/Fund Balance Classifications

##### Government-Wide Statements

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

- **Net investment in capital assets** - This class represents the cost, or fair value if donated, of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by the outstanding balances on any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** - This class consists of net position with constraints placed on the 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** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets" is considered to be unrestricted.

##### Fund Balances - 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.

The County developed a tax stabilization reserve which has a balance of \$1,052,429 at December 31, 2013 and is included in restricted fund balance. The County's Legislature has the authority for establishing this reserve and can add or reduce the stabilization amount by board resolution. The County may utilize the tax stabilization reserve for purposes developed through the budget process.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities, and Equity (Continued)

#### e. Net Position/Fund Balance Classifications (Continued)

##### Fund Balances - Fund Financial Statements (Continued)

➤ **Committed Fund Balances**

These are amounts that can be used only for specific purposes determined by a formal action of the County Legislature to year-end. The County Legislature is the highest level of decision-making authority for the County. Commitments may be established, modified, or rescinded only through resolutions approved by the County Legislature.

➤ **Assigned Fund Balances**

These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. It is at the discretion of the County Legislature to make assignments as it sees fit.

➤ **Unassigned Fund Balances**

These are all other spendable amounts.

Absent a County-wide policy, when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

#### f. Interfund Transfers

Interfund transfers generally are recorded as operating transfers in or out, except for the following types of transactions: interfund revenues, which are recorded as revenues of the performing fund and expenditures of the requesting fund or reimbursements for services performed, which are recorded as a reduction of expenditures in the performing fund and an expenditure of the requesting fund. Transfers between governmental funds are reported at net as part of the reconciliation to the government-wide financial statements. Transfers between governmental funds and fiduciary funds are not offset in the government-wide financial statements, since fiduciary funds are not included in the government-wide financial statements.

#### g. Labor Relations

Certain County employees are covered by collective bargaining units and the remainder is governed by County Board and Civil Service rules and regulations.

#### h. Estimates

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

## 2. PRIOR PERIOD ADJUSTMENTS

The fund financial statements for the year ended December 31, 2012 were improperly presented in that the fund financial statements for grants receivable was understated in the General Fund by \$679,146. This error occurred because the County did not consistently record grants on the modified accrual basis of accounting in the fund financial statements.

The government-wide financial statements and internal service funds for the year ended December 31, 2012 were improperly presented because liabilities were understated by \$3,836,817 because the County historically has recorded workers' compensation and self-insurance claims as they are billed instead of having a liability for known and incurred but not reported (IBNR) claims as generally accepted accounting principles require.

The effect of the restatement as of January 1, 2013 is as follows:

	<u>As Previously Reported</u>	<u>Restated</u>
<b>Governmental activities:</b>		
Net position, beginning of year	\$ <u>65,100,589</u>	\$ <u>61,942,918</u>
<b>General Fund:</b>		
Fund balance, beginning of year	\$ <u>13,440,900</u>	\$ <u>14,120,046</u>
<b>Internal Service Funds:</b>		
Net position, beginning of year	\$ <u>3,020,093</u>	\$ <u>(816,724)</u>

### 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### Budgetary Information

##### i. Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year-end. For capital projects, project length financial plans are developed for each project. Budgets are prepared for Enterprise Funds to control expenditures, and establish user charges.

The County employs the following budgetary procedures:

- a) No later than November 15, the budget officer submits a tentative budget to the legislature for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing them. The budget is prepared on a departmental basis.
- b) After public hearings are conducted to obtain taxpayer comments, but no later than December 20, the legislature adopts the annual budget.
- c) All revisions that alter appropriations of any department or fund must be approved by the legislature.
- d) Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects.
- e) No budgets are approved for the Special Grant Fund, Workers' Compensation Fund, and Self-Insurance Fund.

##### **Solid Waste Fund**

The deficit of the Solid Waste Fund was approximately \$1,181,000 at December 31, 2013. This deficit results from the recognition of closure and post-closure liabilities. This deficit will remain until such time as the closure and post-closure liabilities are satisfied.

##### **Internal Service Funds**

The deficit of the Internal Service Funds was approximately \$794,000 at December 31, 2013. This deficit results from the recognition of known and incurred but not recorded (IBNR) liabilities. Over time, the funds of the County will need to finance these estimated liabilities.

##### **County Road Fund**

The deficit of the County Road Fund was approximately \$343,000 at December 31, 2013. This deficit results from the issuance of a Bond Anticipation Note (BAN) of \$1,600,000 during 2013. As this BAN is repaid or converted to long-term debt, the fund's deficit will be reduced or eliminated.

##### **Cortland Tobacco Asset Securitization Corporation**

The net position deficit of the Corporation was approximately \$11 million at December 31, 2013. This deficit results from full accrual accounting which requires the recording of the full amount of the bonds payable at the time the bonds are issued, while the revenue is recognized as it becomes available to pay the bond debt. It is expected that the deficit will decline as the revenues related to the tobacco settlements are received.

##### j. Budget Reconciliation/Budget Modifications

A reconciliation of expenditures for the 2013 General Fund budget is as follows:

Original adopted budget	\$ 97,723,621
Amendments	<u>1,347,138</u>
Final revised budget	<u>\$ 99,070,759</u>

#### 4. DEPOSITS AND INVESTMENTS

State statutes govern the County's investment policies. The County has its own written deposit and investment policy, which is compliant with Section 39 of the General Municipal Law. County monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within New York State. The County Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and its agencies, repurchase agreements, and general obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities. At year-end, demand deposits and certificates of deposit for the County were entirely covered by FDIC insurance or collateral held by trust companies located within the State.

At December 31, 2013, cash and cash equivalents consisted of demand deposit accounts, money market accounts, and savings accounts.

##### **Investment and Deposit Policy**

The County follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conform with federal, state, and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the County Treasurer.

##### **Interest Rate Risk**

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

##### **Credit Risk**

The County's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

##### **Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the County's investment and deposit policy, all deposits of the County including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by a pledge of securities with an aggregate value of 100% of the aggregate amount of deposits. The County restricts the securities to the following eligible items:

- Obligations issued, fully insured, or guaranteed as to the payment of principal and interest, by the United States, an agency thereof, or a United States government sponsored corporation.
- Obligations issued, fully guaranteed by the International Bank for Reconstruction and Development, the InterAmerican Development Bank, and the Asian Development Bank.

#### 4. DEPOSITS AND INVESTMENTS (Continued)

##### Custodial Credit Risk - Deposits (Continued)

- Obligations partially insured or guaranteed by any agency of the United States.
- Obligations issued or fully insured or guaranteed by New York State, obligations issued by a municipal corporation, school district, or district corporation of New York State.
- Obligations issued by a state other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations issued by Puerto Rico rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations of counties, cities, and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statically rating organization.
- Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by regulatory agencies.
- Commercial paper and bankers' acceptances issued by a bank, other than the bank, rated in the highest short term category by at least one nationally recognized statistical rating organization and having maturities of not longer than sixty days from the date they are pledged.
- Zero coupon obligations of the United States government marketed as "Treasury strips"

##### Primary Government, Including Internal Service Funds and Fiduciary Funds

At December 31, 2013, the bank balance of the County's cash and cash equivalents of its primary government, including Internal Service Funds and Fiduciary Funds, was exposed to custodial credit risk as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 23,164,401	\$ 20,195,481
Category 1: Covered by FDIC insurance	\$ 1,375,347	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name	<u>21,994,200</u>	
	<u>\$ 23,369,547</u>	

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

#### 4. DEPOSITS AND INVESTMENTS (Continued)

- **Discretely Presented Component Units**

- a. **Soil and Water Conservation District**

At December 31, 2013, the bank balance of the District's cash and cash equivalents was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 2,922,498	\$ 2,910,205
Category 1: Covered by FDIC Insurance	\$ 320,932	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	<u>2,977,274</u>	
	<u>\$ 3,298,206</u>	

Restricted cash of the District held for grantor organizations was \$873,933 at December 31, 2013.

- b. **Cortland County Industrial Development Agency**

The bank balance of the Agency's cash and cash equivalents and its exposure to custodial credit risk have been disclosed in the Agency's separately issued financial statements.

#### 5. RECEIVABLES

##### **Primary Government**

The County's receivables for its governmental and proprietary funds are stated at net realizable value and consisted of the following at December 31, 2013:

Real property and other taxes, net	\$ 5,504,974
Federal and state aid	8,479,108
Due from other governments	5,473,957
Other receivables	30,712
Solid waste accounts receivable	<u>112,291</u>
	<u>\$ 19,601,042</u>

##### **Taxes Receivable**

The County has estimated the taxes receivable that it has deemed to be uncollectible and has recorded approximately \$34,000 in an allowance for doubtful accounts. Taxes receivable are shown net of this allowance on the statement of net position.

## 6. CAPITAL ASSETS

### Governmental Activities

Capital asset activity for the County's governmental activities was as follows for the year ended December 31, 2013:

	Balance <u>1/01/13</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/13</u>
Capital assets not being depreciated:				
Land	\$ 1,221,700	\$ -	\$ -	\$ 1,221,700
Construction in progress	<u>2,769,097</u>	<u>3,425,183</u>	<u>-</u>	<u>6,194,280</u>
Total capital assets not being depreciated	<u>3,990,797</u>	<u>3,425,183</u>	<u>-</u>	<u>7,415,980</u>
Capital assets being depreciated:				
Buildings and improvements	28,125,924	-	-	28,125,924
Capital lease (Note 11)	10,914,213	-	-	10,914,213
Machinery and equipment	14,706,512	964,539	(206,668)	15,464,383
Infrastructure	<u>100,632,757</u>	<u>-</u>	<u>-</u>	<u>100,632,757</u>
Total cost of capital assets being depreciated	<u>154,379,406</u>	<u>964,539</u>	<u>(206,668)</u>	<u>155,137,277</u>
Less accumulated depreciation and amortization:				
Buildings and improvements	(19,938,379)	(596,157)	-	(20,534,536)
Capital lease	-	(1,091,421)	-	(1,091,421)
Machinery and equipment	(8,421,704)	(1,649,151)	184,250	(9,886,605)
Infrastructure	<u>(40,363,066)</u>	<u>(5,679,329)</u>	<u>-</u>	<u>(46,042,395)</u>
Total accumulated depreciation	<u>(68,723,149)</u>	<u>(9,016,058)</u>	<u>184,250</u>	<u>(77,554,957)</u>
Total depreciable capital assets, net	<u>85,656,257</u>	<u>(8,051,519)</u>	<u>(22,418)</u>	<u>77,582,320</u>
Governmental activities capital assets, net	<u>\$ 89,647,054</u>	<u>\$ (4,626,336)</u>	<u>\$ (22,418)</u>	<u>\$ 84,998,300</u>

Depreciation expense and amortization expense was allocated as follows in governmental activities at December 31, 2013:

Transportation	\$ 6,671,883
Public safety	811,445
General government	721,285
Home and community	613,092
Economic assistance and opportunity	81,145
Health	54,096
Culture and recreation	45,080
Education	<u>18,032</u>
Total depreciation and amortization expense	<u>\$ 9,016,058</u>

## 6. CAPITAL ASSETS (Continued)

### Business-Type Activities

Capital asset activity for the County's business-type activities was as follows for the year ended December 31, 2013:

	Balance <u>1/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>12/31/2013</u>
Capital assets not being depreciated:					
Land	\$ 176,300	\$ -	\$ -	\$ -	\$ 176,300
Total capital assets not being depreciated	<u>176,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,300</u>
Capital assets being depreciated:					
Buildings and improvements	2,303,685	-	-	-	2,303,685
Land improvements	19,909,964	-	-	-	19,909,964
Equipment and fixtures	<u>2,218,752</u>	<u>1,587</u>	<u>-</u>	<u>-</u>	<u>2,220,339</u>
Total cost of capital assets being depreciated	<u>24,432,401</u>	<u>1,587</u>	<u>-</u>	<u>-</u>	<u>24,433,988</u>
Less accumulated depreciation:					
Buildings and improvements	(529,845)	(76,789)	-	-	(606,634)
Land improvements	(10,217,312)	(655,170)	-	-	(10,872,482)
Equipment and fixtures	<u>(1,806,789)</u>	<u>(168,132)</u>	<u>-</u>	<u>-</u>	<u>(1,974,921)</u>
Total accumulated depreciation	<u>(12,553,946)</u>	<u>(900,091)</u>	<u>-</u>	<u>-</u>	<u>(13,454,037)</u>
Total depreciable capital assets, net	<u>11,878,455</u>	<u>(898,504)</u>	<u>-</u>	<u>-</u>	<u>10,979,951</u>
Total capital assets, net	<u>\$ 12,054,755</u>	<u>\$ (898,504)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,156,251</u>

### Discretely Presented Component Units

- **Cortland County Industrial Development Agency -**

The Agency had \$209,818 invested in Railroad Land at December 31, 2013. There were no additions or deletions associated with these properties during the year.

- **Cortland County Soil and Water Conservation District -**

The District had \$20,958 in vehicles at December 31, 2013. There were no deletions associated with capital assets during the year. There was also no depreciation expense associated with this capital asset during the year ended December 31, 2013.

## 7. POSTEMPLOYMENT HEALTH CARE BENEFITS

### Plan Description

The County provides certain health care benefits for retired employees. The County 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 Plan members and the County are established and may be amended by the County Legislature. The County Legislature has negotiated several collective bargaining agreements, which include obligations of Plan members and the County. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2013, the County contributed \$2,459,000 to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the 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 approximately 700 participants in the County's Retirement Plan for the year ended December 31, 2013.

### Annual OPEB Cost and Net OPEB Obligation

The County'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.

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

Normal cost	\$ 3,173,849
Amortization of UAAL	4,878,838
Interest	<u>322,107</u>
Total annual required contribution	8,374,794
Interest on net OPEB obligation	535,867
Adjustment to annual required contribution	<u>(774,732)</u>
Annual OPEB cost	8,135,929
Contributions made	<u>(2,459,000)</u>
Increase in net OPEB obligation	5,676,929
NET OPEB obligation - January 1, 2013	<u>18,773,285</u>
NET OPEB obligation - December 31, 2013	<u>\$ 24,450,214</u>

## 7. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### Trend Information

The following table provides trend information for the Retirement Plan:

Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Actual Employer <u>Contribution</u>	Percent <u>Contributed</u>	Net OPEB <u>Obligation</u>
2013	\$8,135,929	\$2,459,000	30.2%	\$24,450,214
2012	\$8,135,929	\$2,759,327	33.9%	\$18,773,285
2011	\$5,998,769	\$3,072,828	51.2%	\$13,396,683

### Schedule of Funding Progress

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

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

Actuarial Valuation <u>Date</u>	Year <u>Ended</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2012	12/31/13	\$ -	\$ 87,739,563	\$ 87,739,563	0.0%	\$ 22,589,660	388.4%
1/1/2012	12/31/12	\$ -	\$ 87,739,563	\$ 87,739,563	0.0%	\$ 22,283,085	393.7%
1/1/2011	12/31/11	\$ -	\$ 65,717,960	\$ 65,717,960	0.0%	Not available	

### 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, 2012 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	10.0% or 7.5% initially, depending on age, reduced by decrements each year to an ultimate rate of 5.0% in 2016.
Unfunded actuarial accrued liability:	
Amortization period	30 years initially
Amortization method	Level dollar
Amortization basis	Open

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

## 7. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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 Retirement Plan. As of the date of this statement, the County 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.

## 8. INTERFUND BALANCES

Interfund receivables and payables between governmental activities are eliminated on the statement of net position. The County typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are not expected to be repaid within one year.

Net interfund balances at December 31, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 1,385,736	\$ 1,109,032
County road fund	124,972	122,842
Special grant fund	67	67
Road machinery fund	24,050	108,728
Capital projects fund	453,053	1,205,143
Solid waste fund	7,390	43,949
Internal service funds	620,550	28,862
Agency fund	<u>10,597</u>	<u>7,792</u>
Total	<u>\$ 2,626,415</u>	<u>\$ 2,626,415</u>

Interfund transfers for the year ended December 31, 2013 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 264,692	\$ 6,025,961
County road	5,219,069	-
Capital projects	979,742	17,930
Road machinery	<u>-</u>	<u>419,612</u>
	<u>\$ 6,463,503</u>	<u>\$ 6,463,503</u>

## 9. FINANCING ARRANGEMENTS

### Serial Bonds - Excluding CTASC

The County borrows money in order to acquire land or high cost 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. These long-term liabilities are full faith and credit debt of the County. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

### Serial Bonds - CTASC

The original purchase price for the County's future rights, title and interest in the TSRs was financed through the issuance of Series 2001 Bonds in the amount of \$10,640,000 with interest at rates ranging from 4.27% to 5.75%. The 2001 Bonds were sold at a discount of \$123,538, for a net issue price of \$10,516,462. The discount is amortized over the maturity period of the bonds using the straight-line method. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring and from June 1, 2002 until June 1, 2027 under the super sinker payment schedule.

The second bond issue was issued November 29, 2005 and are capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest and maturity rates. These bonds shall accrue interest at their stated rates from the series 2005 delivery date, which interest shall accrue and not be payable, compounded semiannually, until maturity. Interest accrued for the year ended December 31, 2013 was \$275,525. During 2013, no principal or interest payments were made. The value of the bonds increase based upon the interest accrued over the life of the bonds. The total value of the bonds issued at November 29, 2005 was \$4,185,259.

### Other Long-Term Obligations

In addition to long-term bonded debt the County had the following other obligations:

Compensated Absences - represents the value of earned and unused vacation leave and compensatory time. The amounts below are disclosed on a net basis, as it is impractical to report on the gross basis.

### Summary of Long-Term Obligations

The following is a summary of all long-term obligations outstanding at December 31, 2013:

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>	Due in <u>One Year</u>
Governmental activities:					
Serial Bonds - excluding CTASC	\$ 13,298,330	\$ -	\$ (498,010)	\$ 12,800,320	\$ 516,710
Serial Bonds - CTASC, net	12,553,988	280,276	(230,000)	12,604,264	340,000
Compensated absences	1,720,974	-	(2,783)	1,718,191	429,548
Capital lease (Note 11)	7,220,745	-	(794,873)	6,425,872	620,383
Early termination benefits (Note 12)	259,672	-	(86,557)	173,115	86,557
Other postemployment benefits	<u>18,773,285</u>	<u>8,135,929</u>	<u>(2,459,000)</u>	<u>24,450,214</u>	<u>-</u>
Total governmental activities	<u>53,826,994</u>	<u>8,416,205</u>	<u>(4,071,223)</u>	<u>58,171,976</u>	<u>1,993,198</u>
Business-type activities:					
Serial Bonds	<u>10,636,670</u>	<u>-</u>	<u>(366,990)</u>	<u>10,269,680</u>	<u>383,290</u>
Total primary government	<u>\$ 64,463,664</u>	<u>\$ 8,416,205</u>	<u>\$ (4,438,213)</u>	<u>\$ 68,441,656</u>	<u>\$ 2,376,488</u>

**9. FINANCING ARRANGEMENTS (Continued)**

**Summary of Long-Term Obligations (Continued)**

The following is a summary of maturity of the long-term indebtedness:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2013 Payments</u>	<u>Outstanding December 31</u>
Serial Bonds - excluding CTASC -					
Real property	2004	2019	4.38 - 4.50%	\$ 35,000	\$ 250,000
Public improvement	2007	2028	3.88 - 4.00%	375,000	8,000,000
Public improvement	2008	2032	4.00 - 5.00%	455,000	9,950,000
Public improvement	2012	2038	2.75 - 3.25%	-	4,870,000
					<u>\$ 23,070,000</u>

The following is a summary of maturing debt service requirements for general obligation serial bonds-excluding CTASC:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 900,000	\$ 918,904
2015	930,000	882,111
2016	975,000	843,836
2017	1,030,000	803,529
2018	1,060,000	761,458
2019 - 2023	5,810,000	3,126,318
2024 - 2028	7,110,000	1,821,388
2029 - 2033	3,960,000	593,776
2034 - 2038	<u>1,295,000</u>	<u>127,768</u>
	<u>\$ 23,070,000</u>	<u>\$ 9,879,088</u>

The following is a summary of maturity of the long-term indebtedness of the CTASC:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2013 Payments</u>	<u>Outstanding December 31</u>
Serial Bonds - CTASC					
Series 2001	2001	2027	4.30 - 5.75%	\$ 230,000	\$ 8,210,000
Series 2005	2005	2060	6.00 - 7.15%	-	4,460,784
Bond discount					<u>(66,520)</u>
					<u>\$ 12,604,264</u>

**9. FINANCING ARRANGEMENTS (Continued)**

**Summary of Long-Term Obligations (Continued)**

The following is a summary of maturing debt service requirements for the CTASC. Principal and interest payments for the Series 2001 Bonds are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 340,000	\$ 469,191
2015	355,000	461,550
2016	375,000	439,650
2017	390,000	416,700
2018	500,000	390,000
2019 - 2023	2,965,000	1,450,550
2024 - 2027	<u>3,285,000</u>	<u>463,500</u>
	<u>\$ 8,210,000</u>	<u>\$ 4,091,141</u>

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the investment principal is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on these bonds other than their respective maturity dates, at which time a single payment is made representing principal and investment return. Such payments are as follows:

	<u>Principal</u>	<u>Interest</u>
Series S1 payable June 2038	\$ 713,160	\$ 2,947,369
Series S2 payable June 2050	730,966	9,197,816
Series S3 payable June 2055	649,493	16,117,354
Series S4A payable June 2060	<u>734,367</u>	<u>32,192,723</u>
	<u>\$ 2,827,986</u>	<u>\$ 60,455,262</u>

Interest on all long-term debt for the year was composed of:

Interest paid	\$ 960,335
Plus: Interest accrued in the current year	510,008
Less: Interest accrued in the prior year	<u>(193,859)</u>
Total interest expense	<u>\$ 1,276,484</u>

**10. SHORT-TERM DEBT**

Short-term debt provides financing for governmental activities. The County issued one Bond Anticipation Note (BAN) in 2013 totaling \$1,600,000. The BAN was issued to finance certain highway, road, bridge, and culvert improvements. This BAN had a repayment date of May 27, 2014, and bore interest at 0.89%.

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

Balance, January 1, 2013	\$ -
Increases	1,600,000
Decreases	<u>-</u>
Balance, December 31, 2013	<u>\$ 1,600,000</u>

## 11. CAPITAL LEASE

The County and Motorola Solutions, Inc. (Motorola) entered into an agreement in 2012 which provides for Motorola, as agent of the County, to construct cell towers and related equipment which will be owned by the County at the end of the lease. The County entered into this lease as of January 1, 2012. The lease expires on January 15, 2022.

This lease is defined as a capital lease and the related cell towers are recorded as an asset that will be amortized over the term of the lease. The lease obligation is shown as a liability with the related interest expense reported as non-operating expenses.

The payment terms under this lease are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 620,383	\$ 223,299
2015	641,941	201,741
2016	664,249	179,433
2017	687,331	156,351
2018	711,216	132,466
2019 - 2022	<u>3,100,752</u>	<u>273,977</u>
	<u>\$ 6,425,872</u>	<u>\$ 1,167,267</u>

## 12. TERMINATION BENEFITS

During 2010, the County approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the New York State and Local Employees' Retirement System (the System) and has two different incentive programs, Part A and Part B. To be eligible for Parts A and B under the Program, employees were required to have 10 years of service with the County and be at least 50 years of age but not yet 55 years of age. The commencement of the open period was October 1, 2010 and eligible employees under both Part A and B of the Program were required to retire by December 29, 2010.

Employees taking advantage of Part A of the Program received approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. Employees taking advantage of Part B of the Program were allowed to retire at age 55 without a benefit reduction.

During the year ended December 31, 2010, fifteen employees elected early retirement under Part A of the Program. The estimated present value of the benefits provided to the retirees under the Program is reported as a liability to the County of \$173,115 and is included in long term liabilities in the statement of net position at December 31, 2013. The County will fund the system in two remaining installments of approximately \$86,600 over the next two years.

### 13. EMPLOYEE RETIREMENT SYSTEM

#### Plan Description

The County participates in the New York State and Local Employees' Retirement System (the System). This is a cost-sharing multiple-employer public employee retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (the Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

#### Funding Policy

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

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

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who joined on or after April 1, 2012 contribute 3% of their reportable salary.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The County contributed 100% of the required contributions for the current year and two preceding years as follows:

2013	\$ 5,007,313
2012	\$ 4,357,681
2011	\$ 3,779,401

#### 14. LANDFILL CLOSURE AND POST-CLOSURE COSTS

The County has three landfills that it maintains: the West Side, Pine Tree, and Old Cortland County landfills. The West Side landfill is the only one that is active; the other two are closed. Based on a survey completed by an engineering firm, the total remaining air space capacity of the West Side landfill is 1,264,002 tons, or approximately 26.7 years of remaining site life.

State and federal laws and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. Landfill activity is reported in the Solid Waste Fund, an enterprise fund.

The County has a total of \$3,679,563 reported as landfill closure and post-closure care liability which represents the cumulative amount reported to date. The total cost consists of total post closure and closure costs of \$3,126,033 of the West Side landfill; \$254,337 for the Pine Tree landfill; and \$299,193 of the Old Cortland County landfill. The County will recognize the remaining estimated cost of closure and post-closure care of \$3,679,563 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2013 for the West Side, Pine Tree, and Old Cortland County landfills. The County expects to close the West Side landfill in the year 2040. Actual closure and post-closure costs may be higher due to inflation, changes in technology, or changes in regulations.

#### 15. FUND BALANCES

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

	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund	Debt Service Fund
Nonspendable	\$ 1,119,977	\$ 92,337	\$ -	\$ 18,717	\$ -	\$ 3,536
Restricted -						
Debt service	-	-	-	-	-	810,158
Law	1,814,148	37,657	-	25,519	3,148,982	-
Assigned						
Other spendable amounts	1,003,393	-	20	1,220,922	70,522	105,294
Unassigned	<u>12,107,023</u>	<u>(472,736)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,044,541</u>	<u>\$ (342,742)</u>	<u>\$ 20</u>	<u>\$ 1,265,158</u>	<u>\$ 3,219,504</u>	<u>\$ 918,988</u>

## 16. RISK MANAGEMENT

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

The County's self-insurance coverage applies to medical, dental, and vision insurance and workers' compensation. The County has excess liability insurance protection up to \$1,000,000 for a single incident with coverage that is effective in the event that a single loss exceeds \$1,000,000. The excess insurance covers workers' compensation claims with a specific excess limit of \$10,000,000 and employer's liability limit of \$1,000,000. The specific deductible on workers' compensation is \$375,000 per occurrence. The excess insurance also covers property damage for all County buildings and their contents, as well as all other County assets with a deductible of \$100,000. Any public works equipment, which is not licensed or cannot be licensed per New York State regulations, has a \$1,000 deductible per occurrence. Various County funds paid \$7,420,772 to the Self Insurance Fund during the year ended December 31, 2013, for the cost of these services. Various County funds were also charged \$557,290 by the Workers' Compensation Fund during the year ended December 31, 2013 for those services.

The County's estimated claims liability at December 31 of each year is based on the anticipated final outcome of each claim, analyzed on a case-by-case basis. The County also utilizes a third party administrator who is responsible for processing claims and estimating liabilities for the self-insurance fund and workers' compensation fund. Based upon the requirements of accounting principles generally accepted in the United States, liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. At December 31, 2013, the amount of the liability for both funds was \$4,729,819 and is included in both accrued liabilities and accounts payable at year-end.

The following represents changes in those aggregate liabilities for the year ended December 31, 2013:

	<u>Self-Insurance</u>	<u>Workers' Compensation</u>
January 1, 2013	\$ 917,676	\$ 3,565,461
Claims and changes in estimates	<u>8,969</u>	<u>237,713</u>
December 31, 2013	<u>\$ 926,645</u>	<u>\$ 3,803,174</u>

The County's Self-Insurance Fund had net position of \$2,957,380 at December 31, 2013, which is included in the County's Internal Service Funds.

The County's Workers' Compensation Fund had net position deficit of \$3,750,964 at December 31, 2013, which is included in the County's Internal Service Funds.

County employees are entitled to coverage under the New York State Unemployment Insurance Law. The County has elected to discharge its liability to the New York State Unemployment Insurance Fund by the benefit reimbursement method; a dollar-for-dollar reimbursement to the fund for benefits paid from the fund to former County employees and charged to the County's account.

## **17. FEDERAL AND STATE FUNDED PROGRAMS**

The County participates in a number of Federal and New York State grant and assistance programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial. Expenditures disallowed by completed audits have generally been immaterial in nature and, accordingly, have been reflected as adjustments to revenues in the year the expenditure was determined to be unallowable.

Third-party payers, especially government funders, have substantially increased their scrutiny of payments made to their designated service providers. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulation compliance, etc. The stated purpose for these reviews is to recover reimbursements, which the payers believe may have been inappropriate.

The County has reviewed its internal records and policies with respect to such matters. However, due to the nature of these matters, it is difficult to estimate the ultimate liability, if any, which it may incur related to such matters.

## **18. CONTINGENCIES**

The County is the defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material effect on the financial condition of the County government.

## **19. JOINT VENTURE**

The Tompkins-Cortland Community College (the College) was established by joint action of the Legislative Boards of Cortland and Tompkins Counties. The College operates under authority of Article 126 of the Education Law and the Rules and Regulations of the State University Trustees. It is administered by a ten member Board of Trustees, five of whom are appointed by the legislative boards of the two counties under an apportionment made between the two by the State University Trustees. The College's annual operating budget is subject to approval by both County legislative boards. Ownership of existing capital facilities and capital expenses are shared in proportion of the student population of each County. Subsidies to meet operational expenses are shared in the ratio of resident students in attendance.

The County contributed approximately \$1,590,000 and \$140,000 to the College in 2013 for operations and debt, respectively.

The County also advanced funds in prior years to the College for its campus master plan, and at December 31, 2013, the College owes the County \$2,784,120. These funds will be paid by the College each year until 2026 under a long-term payment plan. This amount is recorded as a long-term receivable in the statement of net position.

## **20. IMPACT OF FUTURE GASB PRONOUNCEMENTS**

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

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

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

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

## **21. SUBSEQUENT EVENTS**

The County renewed the Bond Anticipation Note outstanding at December 31, 2013 for \$1,600,000 on May 27, 2014 with an interest rate of 1.25% and a new due date of February 27, 2015. In addition, the County issued a Bond Anticipation Note for \$2,333,000 on August 19, 2014 with an interest rate of 1% and a maturity date of February 25, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY OF CORTLAND, NEW YORK**

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

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Real property taxes and tax items	\$ 34,040,647	\$ 34,040,647	\$ 32,890,840	\$ (1,149,807)
Nonproperty tax items	28,215,500	28,230,500	29,356,481	1,125,981
Departmental income	7,563,753	7,604,801	7,496,077	(108,724)
Intergovernmental charges	-	-	362,832	362,832
Use of money and property	58,600	58,600	233,425	174,825
Fines and forfeitures	-	-	164,272	164,272
Sale of property and compensation for loss	2,000	12,605	10,539	(2,066)
Miscellaneous	1,401,070	1,411,569	251,935	(1,159,634)
State aid	14,416,654	14,851,517	14,437,061	(414,456)
Federal aid	10,739,823	10,754,236	9,635,699	(1,118,537)
Total revenues	<u>96,438,047</u>	<u>96,964,475</u>	<u>94,839,161</u>	<u>(2,125,314)</u>
<b>EXPENDITURES:</b>				
General governmental support	21,664,439	21,953,813	21,438,486	515,327
Education	4,954,098	4,488,098	4,089,147	398,951
Public safety	13,314,215	12,890,157	12,408,317	481,840
Public health	10,325,541	10,598,616	9,780,633	817,983
Transportation	555,250	534,002	1,143,340	(609,338)
Economic assistance and opportunity	36,353,421	36,589,032	33,611,175	2,977,857
Culture and recreation	340,779	342,571	304,050	38,521
Home and community services	2,071,766	2,206,664	1,137,111	1,069,553
Employee benefits	2,679,000	2,863,000	2,577,482	285,518
Debt service	665,657	673,657	663,656	10,001
Total expenditures	<u>92,924,166</u>	<u>93,139,610</u>	<u>87,153,397</u>	<u>5,986,213</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>3,513,881</u>	<u>3,824,865</u>	<u>7,685,764</u>	<u>3,860,899</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Appropriated fund balance	1,285,574	1,285,574	-	(1,285,574)
Operating transfers - in	-	251,564	264,692	13,128
Operating transfers - out	(4,799,455)	(5,931,149)	(6,025,961)	(94,812)
Total other financing sources (uses)	<u>(3,513,881)</u>	<u>(4,394,011)</u>	<u>(5,761,269)</u>	<u>(1,367,258)</u>
<b>CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>(569,146)</u>	<u>1,924,495</u>	<u>2,493,641</u>
FUND BALANCE - beginning of year, as previously reported	13,440,900	13,440,900	13,440,900	-
Prior period adjustment (Note 2)	679,146	679,146	679,146	-
FUND BALANCE - beginning of year, as restated	<u>14,120,046</u>	<u>14,120,046</u>	<u>14,120,046</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 14,120,046</u>	<u>\$ 13,550,900</u>	<u>\$ 16,044,541</u>	<u>\$ 2,493,641</u>

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

**COUNTY OF CORTLAND, NEW YORK**

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

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
<b>REVENUES:</b>				
Departmental income	\$ 23,050	\$ 23,050	\$ 10,602	\$ (12,448)
Intergovernmental charges	-	-	745,461	745,461
Use of money and property	1,500	1,500	1,185	(315)
Interfund revenues	-	-	60,677	60,677
Sale of property and compensation for loss	-	-	5	5
Miscellaneous	1,604,000	1,604,000	2,035	(1,601,965)
State aid	<u>2,108,359</u>	<u>2,384,961</u>	<u>1,629,491</u>	<u>(755,470)</u>
Total revenues	<u>3,736,909</u>	<u>4,013,511</u>	<u>2,449,456</u>	<u>(1,564,055)</u>
<b>EXPENDITURES:</b>				
Public safety	202,384	191,884	184,312	7,572
Home and community	-	-	119,947	(119,947)
Transportation	8,637,399	8,924,501	8,772,615	151,886
Debt service	<u>172,193</u>	<u>172,193</u>	<u>172,163</u>	<u>30</u>
Total expenditures	<u>9,011,976</u>	<u>9,288,578</u>	<u>9,249,037</u>	<u>39,541</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(5,275,067)</u>	<u>(5,275,067)</u>	<u>(6,799,581)</u>	<u>(1,524,514)</u>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers - in	<u>5,275,067</u>	<u>5,275,067</u>	<u>5,219,069</u>	<u>55,998</u>
Total other financing sources	<u>5,275,067</u>	<u>5,275,067</u>	<u>5,219,069</u>	<u>55,998</u>
CHANGE IN FUND BALANCE	-	-	(1,580,512)	(1,468,516)
FUND BALANCE - beginning of year	<u>1,237,770</u>	<u>1,237,770</u>	<u>1,237,770</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 1,237,770</u>	<u>\$ 1,237,770</u>	<u>\$ (342,742)</u>	<u>\$ (1,468,516)</u>

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

**COUNTY OF CORTLAND, NEW YORK**

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

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
<b>REVENUES:</b>				
Intergovernmental charges	\$ 280,000	\$ 280,750	\$ 304,966	\$ 24,216
Use of money and property	2,687,075	2,687,075	2,549,554	(137,521)
Interfund revenues	-	-	252,013	252,013
Sale of property and compensation for loss	-	20,000	49,460	29,460
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>1,479</u>	<u>(1,521)</u>
Total revenues	<u>2,970,075</u>	<u>2,990,825</u>	<u>3,157,472</u>	<u>166,647</u>
<b>EXPENDITURES:</b>				
Transportation	2,679,865	2,700,615	2,548,694	151,921
Debt service	<u>150,082</u>	<u>150,082</u>	<u>150,082</u>	<u>-</u>
Total expenditures	<u>2,829,947</u>	<u>2,850,697</u>	<u>2,698,776</u>	<u>151,921</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>140,128</u>	<u>140,128</u>	<u>458,696</u>	<u>318,568</u>
<b>OTHER FINANCING SOURCES:</b>				
Appropriated fund balance	279,484	279,484	-	(279,484)
Operating transfers - in	<u>(419,612)</u>	<u>(419,612)</u>	<u>(419,612)</u>	<u>-</u>
Total other financing sources	<u>(140,128)</u>	<u>(140,128)</u>	<u>(419,612)</u>	<u>(279,484)</u>
CHANGE IN FUND BALANCE	-	-	39,084	39,084
FUND BALANCE - beginning of year	<u>1,226,074</u>	<u>1,226,074</u>	<u>1,226,074</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 1,226,074</u>	<u>\$ 1,226,074</u>	<u>\$ 1,265,158</u>	<u>\$ 39,084</u>

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

**SECTION B**

**OMB CIRCULAR A-133**

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

September 25, 2014

To the County Legislature of the  
County of Cortland, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Cortland, New York (the County) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2014. Our report includes a reference to other auditors who audited the financial statements of the Cortland County Industrial Development Agency (the Agency) and the Cortland Tobacco Asset Securitization Corporation (CTASC), as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (Findings 2013-001, 2013-002 and 2013-003).

171 Sully's Trail, Suite 201  
Pittsford, New York 14534  
p (585) 381-1000  
f (585) 381-3131

[www.bonadio.com](http://www.bonadio.com)

(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)

## **Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County'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*.

## **County's Response to Findings**

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

September 25, 2014

To the County Legislature of the  
County of Cortland, New York:

**Report on Compliance for Each Major Federal Program**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County'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 each major federal program. However, our audit does not provide a legal determination of the County's compliance.

**Opinion on Each Major Federal Program**

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

(Continued)

**Report on Internal Control Over Compliance**

Management of the County 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 County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

**COUNTY OF CORTLAND, NEW YORK**

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

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through NYS Department of Social Services - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	\$ <u>720,897</u>
Total U.S. Department of Agriculture			<u>720,897</u>
U.S. Department of Labor:			
Passed through NYS Department of Labor - WIA Cluster			
WIA Adult Program	17.258	N/A	40,293
WIA Dislocated Worker Formula Grants	17.278	N/A	45,728
WIA Youth Activities	17.259	N/A	<u>54,838</u>
<i>Subtotal-WIA Cluster</i>			<u>140,859</u>
Trade Adjustment Assistance	17.245	N/A	<u>113,806</u>
Passed through NYS Office of the Aging - Senior Community Service Employment Program	17.235	N/A	<u>18,437</u>
Total U.S. Department of Labor			<u>273,102</u>
U.S. Department of Homeland Security:			
Passed Through NYS Office of the State Comptroller - Homeland Security Grant Program	97.067	T970022	13,000
Homeland Security Grant Program	97.067	T970032	<u>14,000</u>
<i>Subtotal - NYS Office of the State Comptroller</i>			<u>27,000</u>
Passed Through NYS Division of Homeland Security & Emergency Services - Homeland Security Grant Program	97.067	C838400	66,632
Homeland Security Grant Program	97.067	C970010	45,769
Homeland Security Grant Program	97.067	T970020	<u>38,999</u>
<i>Subtotal - NYS Division of Homeland Security &amp; Emergency Services</i>			<u>151,400</u>
Total U.S. Department of Homeland Security			<u>178,400</u>
U.S. Department of Transportation:			
Passed through the NYS Department of Transportation - <b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D033492</b>	<b>28,382</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D033306</b>	<u><b>1,194,158</b></u>
<i>Subtotal - Highway Planning and Construction</i>			<u>1,222,540</u>
Job Access and Reverse Commute Program	20.516	C003869	245,389
New Freedom Program	20.521	C5633	25,161
Formula Grants for Rural Areas	20.509	N/A	<u>380,000</u>
<i>Subtotal - NYS Department of Transportation</i>			<u>1,873,090</u>
Passed through the NYS Division of Criminal Justice - State and Community Highway Safety	20.600	T523658	<u>12,082</u>
Airport Improvement Program	20.106	N/A	<u>826,735</u>
Total U.S. Department of Transportation			<u>2,711,907</u>
Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002	N/A	<u>40,528</u>
Total Corporation for National and Community Service			<u>40,528</u>

**COUNTY OF CORTLAND, NEW YORK**

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

(Continued)

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed through NYS Office of the Aging -			
Special Programs for the Aging - Title IIID -			
Disease Prevention and Health Promotion Services	93.043	N/A	7,481
National Family Caregiver Support - Title III-E	93.052	N/A	26,603
Special Programs for the Aging - Title VII - Chapter 2 -			
Long Term Care Ombudsman Services for Older Individuals	93.042	N/A	<u>10,592</u>
			<u>44,676</u>
Special Programs of the Aging Cluster -			
Special Programs for the Aging - Title IIIB - Grants for			
Supportive Services and Senior Centers	93.044	N/A	50,920
Special Programs for the Aging - Title IIIC- Nutrition Services	93.045	N/A	101,798
Nutrition Services Incentive Program	93.053	N/A	<u>79,689</u>
			<u>232,407</u>
<i>Subtotal - Special Programs of the Aging Cluster</i>			<u>277,083</u>
<i>Total NYS Office of the Aging</i>			<u>277,083</u>
Passed through NYS Office of Temporary and Disability Assistance -			
<b>Temporary Assistance for Needy Families</b>	<b>93.558</b>	<b>N/A</b>	<b><u>10,500</u></b>
Passed through NYS Department of Health -			
Family Planning Services	93.217	C027019	78,211
Children's Health Insurance Program	93.767	C027830	27,440
<b>Medical Assistance Program</b>	<b>93.778</b>	<b>C027830</b>	<b>27,440</b>
Immunization Grants	93.268	C028286	8,700
Maternal and Child Health Services Block Grant to the States	93.994	C026503	14,491
Maternal and Child Health Services Block Grant to the States	93.994	C027019	37,243
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	4697-01	31,611
Public Health Emergency Preparedness	93.069	1596-10	<u>53,500</u>
			<u>278,636</u>
<i>Total NYS Department of Health</i>			<u>278,636</u>
Passed through NYS Department of Social Services -			
<b>Temporary Assistance for Needy Families</b>	<b>93.558</b>	<b>N/A</b>	<b>4,005,322</b>
Child Support Enforcement	93.563	N/A	365,334
<b>Foster Care - Title IV-E</b>	<b>93.658</b>	<b>N/A</b>	<b>1,129,867</b>
<b>Adoption Assistance</b>	<b>93.659</b>	<b>N/A</b>	<b>446,463</b>
<b>Medical Assistance Program</b>	<b>93.778</b>	<b>N/A</b>	<b>863,880</b>
Child Care and Development Block Grant	93.575	N/A	14,058
Low-Income Home Energy Assistance	93.568	N/A	2,100,583
Social Services Block Grant	93.667	N/A	712,373
Chafee Foster Care Independence Program	93.674	N/A	<u>20,820</u>
			<u>9,658,700</u>
<i>Total NYS Department of Social Services</i>			<u>9,658,700</u>
Passed through NYS Department of Alcohol and Substance Abuse Services -			
Block Grants for Prevention and Treatment of Substance Abuse			
	93.959	25147	<u>192,395</u>
<i>Total NYS Department of Alcohol and Substance Abuse Services</i>			<u>192,395</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>10,417,314</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 14,342,148</u>

**Note: Bold items denote major programs.**

## **COUNTY OF CORTLAND, NEW YORK**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2013**

---

#### **1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs administered by the County of Cortland, New York (the County), an entity as defined in the basic financial statements, except that it does not include the federal financial assistance programs, if any, of the Cortland County Industrial Development Agency, Cortland Tobacco Asset Securitization Corporation, and the Cortland County Soil and Water Conservation District.

#### **2. PASS-THROUGH PROGRAMS**

Where the County 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 County's financial management system. The County has identified certain pass-through identifying numbers and included them in the schedule of expenditures of federal awards, as available.

#### **3. BASIS OF ACCOUNTING**

The schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the County's general ledger. For programs with funding ceilings and caps, federal expenditures are only recorded and presented in the schedule of expenditures of federal awards up to such amounts.

#### **4. NONMONETARY FEDERAL PROGRAMS**

The County is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed "nonmonetary programs." New York State makes payments of benefits directly to third parties on behalf of eligible persons participating in the Low-Income Home Energy Assistance Program (CFDA Number 93.568). Included in the amount presented on the schedule of expenditures of federal awards is \$1,986,854 in direct payments for the Low-Income Home Energy Assistance Program.

**5. 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.

**6. MATCHING COSTS**

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

## COUNTY OF CORTLAND, NEW YORK

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2013

---

#### A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the basic financial statements of the County of Cortland, New York (the County).
2. Material weaknesses are reported relating to the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance as Required by OMB Circular A-133.
5. The independent auditor's report on compliance for the County's major federal award programs expresses an unmodified opinion.
6. There are no audit findings relative to major federal award programs for the County.
7. The programs tested as major programs were:
  - CFDA No. 20.205 Highway Planning and Construction
  - CFDA No. 93.778 Medical Assistance
  - CFDA No. 93.658 Foster Care - Title IV-E
  - CFDA No. 93.659 Adoption Assistance
  - CFDA No. 93.558 Temporary Assistance for Needy Families
8. The threshold for distinguishing Types A and B programs was \$430,264.
9. The County was not determined to be a low-risk auditee.

#### B. FINDINGS - FINANCIAL STATEMENT AUDIT

##### **Finding 2013-001: Prior Period Adjustments**

*Condition:* The County required two prior period adjustments in order to properly state beginning fund balance and net position.

*Criteria:* Generally accepted accounting principles required certain transactions to be recorded differently than they were recorded in 2012.

## **B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

### **Finding 2013-001: Prior Period Adjustments (Continued)**

*Cause:* The internal controls of the County did not catch the material errors.

*Effect:* The financial statements for the year ended December 31, 2012 were improperly presented in the fund financial statements because grants receivable was understated in the General Fund by \$679,146. This error occurred because the County did not consistently record grants on the modified accrual basis of accounting in the fund financial statements.

The government-wide financial statements and internal service funds for the year ended December 31, 2012 were improperly presented because liabilities were understated by \$3,836,817 because the County historically has recorded workers' compensation and self-insurance claims as they are billed instead of having a liability for known and incurred but not reported (IBNR) claims as generally accepted accounting principles require.

*Recommendation:* We recommend that the County review its year-end close of its financials to ensure that transactions are recorded properly.

*Management Response:* Management and the County Legislature will work with its accounting firm to ensure that transactions are recorded properly in the future.

### **Finding 2013-002: Bond Anticipation Note**

*Condition:* The County required an audit adjustment of approximately \$1,600,000 to properly state Bond Anticipation Note (BAN) Payable. The County had originally recorded the BAN as proceeds from obligations in the County Road Fund.

*Criteria:* Generally accepted accounting principles require BANs to be recorded as short term liabilities in the fund and proceeds from obligations when they are converted to permanent financing.

*Cause:* The internal controls of the County did not catch the material error.

*Effect:* The County's liabilities were understated by \$1,600,000 and revenues were overstated, and this significant error had not been prevented or detected by the controls of the County for the year ended December 31, 2013.

*Recommendation:* We recommend that the County reviews its year-end close of its financials to ensure that all material liabilities are recorded in the correct period.

*Management Response:* Management and the County Legislature will work with its accounting firm to ensure that BANs are recorded properly in the future.

### **Finding 2013-003: Capital Assets**

*Condition:* There is no centralized listing of capital assets at the County. In some cases, listings of capital assets are maintained manually, which is vulnerable to mathematical errors.

*Criteria:* The County is required to track its capital assets in accordance with generally accepted accounting principles.

*Cause:* Various listings are maintained throughout the County within individual departments. The listings are not shared between departments and are not compiled into one complete list at year-end by the County.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**Finding 2013-003: Capital Assets (Continued)**

*Effect:* There is a significant risk that the County's capital assets will be materially misstated at year-end due to bookkeeping errors or lack of communication between departments regarding asset acquisitions or dispositions.

*Recommendation:* We recommend that the County maintain one main capital asset listing and update it quarterly.

*Management Response:* Management and the County Legislature will work with its accounting firm to ensure that capital assets are recorded properly in the future.

**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 REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

September 25, 2014

To the County Legislature of the  
County of Cortland, New York:

**Report on Compliance of the State Transportation Assistance Program**

We have audited the County of Cortland, New York's (the County'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 County's state transportation assistance program tested for the year ended December 31, 2013. The County's State Transportation Assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

***Opinion on State Transportation Assistance Program***

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

171 Sully's Trail, Suite 201  
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 REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

(Continued)

***Report on Internal Control Over Compliance***

Management of the County 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 County's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

**COUNTY OF CORTLAND, NEW YORK**

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

---

<u>Program Title</u>	<u>NYSDOT Contract/ Ref. Number</u>	<u>Expenditures</u>
<b>Consolidated Local Street and Highway Program (CHIPS)</b>	<b>001-01/001-02</b>	<b>\$ 1,629,461</b>
Snow and Ice Control on State Highways - Indexed Lump Sum	002-02	731,311
Marchiselli Program - Highway Project	D033306	223,904
FAA Grant - Obstruction Removal	3-36-0017-19-11	11,890
FAA Grant - SRE - Building Construction	3-36-0017-18-11	9,909
Marchiselli Program - State Bridge Aid	D033492	5,322
FAA Grant - Runway Grooving	3-36-0017-22-13	4,813
FAA Grant - NavAids Construction	3-36-0017-20-12	3,558
FAA Grant - LA Phase II	3-36-0017-16-10	1,058
FAA Grant - SRE-NavAids Design	3-36-0017-18-11	<u>59</u>
		<u>\$ 2,621,285</u>

**Bolded program represents a major program.**

## **COUNTY OF CORTLAND, NEW YORK**

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

---

#### **1. GENERAL**

The accompanying Schedule of State Transportation Assistance Expended of the County of Cortland, New York (the County) presents the activity 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**

Indirect costs are included in the reported expenditures to the extent they are included in the New York State financial reports used as the source for the data presented.

#### **4. MATCHING COSTS**

Amounts identified as Marchicelli Program - State Bridge Aid and Marchiselli Program – Highway Project represent matching costs for the federally aided programs.

## **COUNTY OF CORTLAND, NEW YORK**

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

---

#### **A. SUMMARY OF AUDIT RESULTS**

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

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

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

#### **C. COMPLIANCE FINDINGS AND QUESTIONED COSTS**

There were no current year findings.