

CITY OF CORTLAND, NEW YORK

**Financial Statements as of
December 31, 2010
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

CITY OF CORTLAND, NEW YORK

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CITY OF CORTLAND, NEW YORK

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SECTION A

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

INDEPENDENT AUDITORS' REPORT

September 19, 2011

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT

(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 40 through 42 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of the New York Code of Rules and Regulations, and both are not a required part of the basic financial statements. The schedule of expenditures of federal awards and schedule of state transportation assistance expended are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CITY OF CORTLAND, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010

Our discussion and analysis of the City of Cortland's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2010. The results of the current year are discussed in comparison with the prior year, with an emphasis on the current year. The Management's Discussion and Analysis is only an introduction, please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$9,109,894 (net assets). Unrestricted net assets, the portion of net assets which may be used to meet the government's ongoing obligations to citizens and creditors, was \$66,970 at December 31, 2010.
- The City's annual required contribution (ARC) for other post-employment benefits for 2010 was \$4,510,571. The City paid \$1,614,652 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Assets of \$7,527,392 for the remaining portion of the unfunded other postemployment benefit obligation.
- During the year, the City had revenues that exceeded expenses of \$1,610,115, compared to last year, when the City had expenses that exceeded revenues of \$1,187,748.
- General Fund revenues of \$18,203,309 exceeded expenditures of \$16,654,722 in 2010, increasing fund balance by \$1,936,275 for the year ended December 31, 2010.

USING THIS ANNUAL REPORT

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

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

USING THIS ANNUAL REPORT (Continued)

Reporting the City as a Whole

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

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

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

Reporting the City's Most Significant Funds

Governmental Fund Financial Statements

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

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

The City as Trustee: The City is the trustee, or fiduciary, for other assets that are held on behalf of others. All of the City's Fiduciary Activities are reported in a separate Statement of Fiduciary Net Assets on page 18. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE CITY AS A WHOLE

The City's combined net assets for the fiscal year ended December 31, 2010 increased from \$7,499,779 to \$9,109,894. Of this amount, \$8,200,704 of the City's net assets reflect its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

Approximately \$840,000 of the City's net assets represents resources subject to external restrictions on how they may be used and are reported as restricted net assets. Unrestricted net assets, the portion of net assets which may be used to meet the government's ongoing obligations to citizens and creditors, was approximately \$67,000 at December 31, 2010.

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

**Figure 1
Net Assets**

	Governmental Activities		Percent Change 2009 - 2010
	<u>2010</u>	<u>2009</u>	
Current and other assets	\$ 13,673,174	\$ 12,375,400	10.5%
Capital assets, net	<u>27,055,824</u>	<u>26,448,007</u>	2.3%
Total assets	<u>\$ 40,728,998</u>	<u>\$ 38,823,407</u>	4.9%
Current and other liabilities	\$ 2,249,528	\$ 937,382	140%
Long-term debt - due in one year	1,745,142	1,880,345	-7.2%
Long-term debt - due in more than one year	<u>27,624,434</u>	<u>28,505,901</u>	-3.1%
Total liabilities	<u>\$ 31,619,104</u>	<u>\$ 31,323,628</u>	-0.94%
Invested in capital assets, net of related debt	\$ 8,200,704	\$ 10,742,943	-23.7
Restricted	842,220	3,900,446	-78.4%
Unrestricted (deficit)	<u>66,970</u>	<u>(7,143,610)</u>	100.9%
Total net assets	<u>\$ 9,109,894</u>	<u>\$ 7,499,779</u>	21.5%

The net assets of the City's Governmental Activities increased by \$1,610,115 or 21.5%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints - increased \$7,210,580 or 100.9% from the prior year. The increase is due to the City's efforts to collect past due property taxes; as well as monitoring of expenditures.

Scheduled payments of \$1,880,345 toward long-term debt contributed to the decrease in long-term liabilities. Current liabilities increased due to timing of payments to vendors and other governments at year-end. Noncurrent assets increased primarily due to an increase in capital assets.

THE CITY AS A WHOLE (Continued)

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

Figure 2
Changes in Net Assets

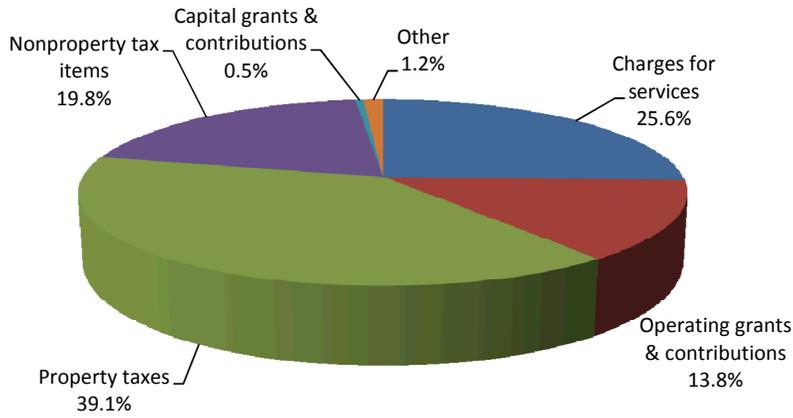
	Governmental Activities		Percent Change
	2010	2009	2009 - 2010
REVENUES			
Program revenues:			
Charges for services	\$ 6,354,730	\$ 6,440,592	-1.3%
Operating grants	3,412,957	2,506,054	36.2%
Capital grants	124,366	205,562	-39.5%
General revenues:			
Property taxes and tax items	9,695,671	7,812,284	24.1%
Nonproperty taxes	4,908,447	4,599,318	6.7%
Use of money and property	74,287	96,608	-23.2%
Other general revenues	<u>229,337</u>	<u>2,788,209</u>	-91.8%
Total revenues	<u>24,799,795</u>	<u>24,448,627</u>	1.4%
PROGRAM EXPENSES			
General government	1,840,736	1,601,284	15.0%
Public safety	10,673,912	12,466,671	-14.4%
Transportation	1,604,046	1,370,551	17.0%
Economic Assistance and opportunity	367,236	129,079	184.5%
Culture and recreation	1,554,376	1,716,448	-9.4%
Home and community services	4,959,929	6,318,916	-21.5%
Interest on long-term debt	768,057	782,464	-1.8%
Depreciation	<u>1,421,388</u>	<u>1,250,962</u>	13.6%
Total expenses	<u>23,189,680</u>	<u>25,636,375</u>	-9.5%
Increase (decrease) in net assets	<u>\$ 1,610,115</u>	<u>\$ (1,187,748)</u>	235.6%

While total expenses for the City's activities showed an decrease of \$2,446,695 or 9.5%, total revenues increased by \$351,168, or 1.4%. The City increased its tax rate by 8.5%, from \$14.047 per thousand to \$15.241 per thousand. Increases in operating grants are largely due to increased community development grants earned during the year. Property taxes increased significantly due to increased tax collections and in rem actions taken during the year. Nonproperty taxes mostly consist of sales tax, which increased due to an improvement of general economic conditions.

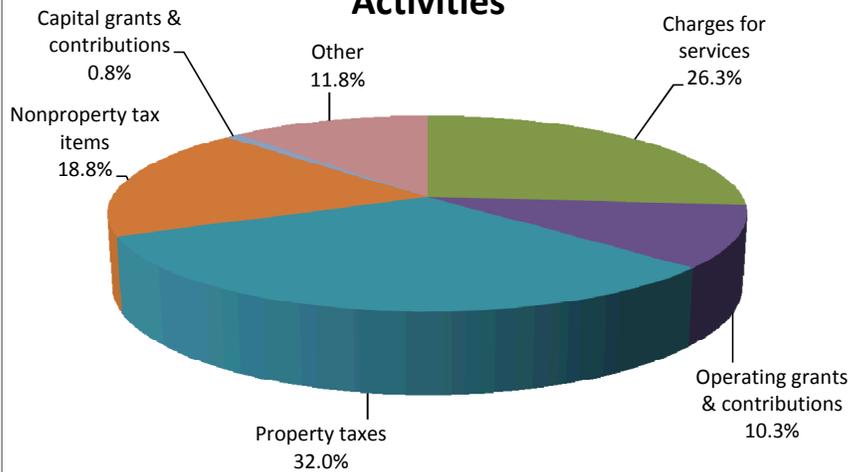
The cost of all Governmental Activities this year was \$23,189,680. However, as shown in the Statement of Activities, the amount that was ultimately financed through City property taxes and other general revenues was \$14,907,742, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the City's governmental program revenues, including fees for services and grants, were \$9,892,053.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2010 and 2009.

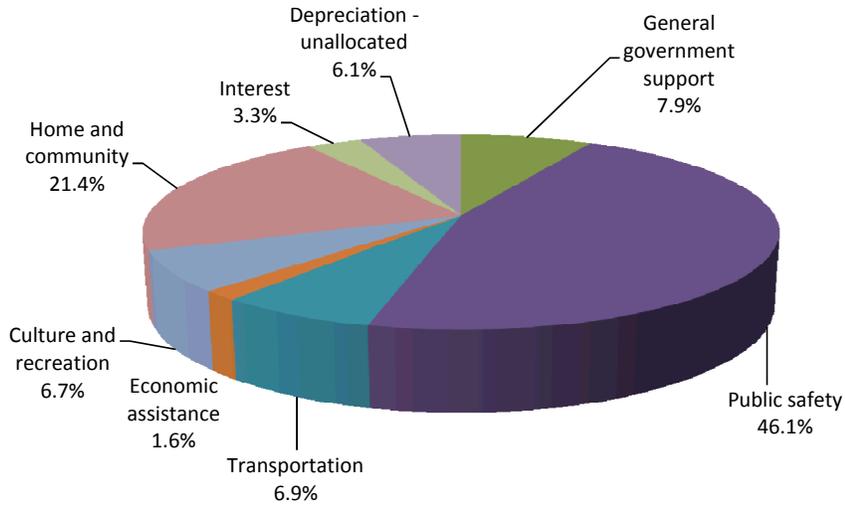
2010 Revenues - Governmental Activities



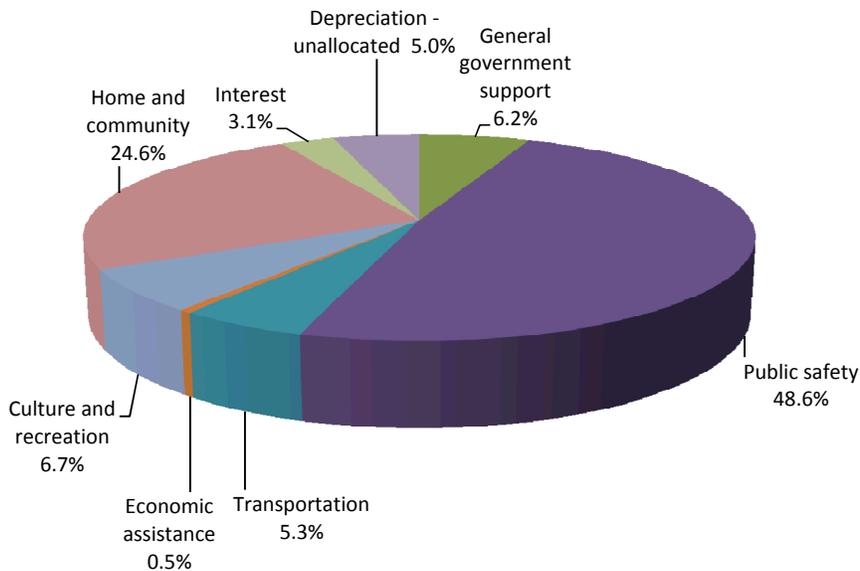
2009 Revenues - Governmental Activities



2010 Expenses - Governmental Activities



2009 Expenses - Governmental Activities



THE CITY'S FUNDS

As the City completed the year, its Governmental Funds, as presented in the balance sheet on pages 14, reported a combined fund balance of \$6,700,177 which is \$928,798 above last year's total of \$5,771,379. Figure 7 shows the fund balances at year end for the City's major funds.

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

	<u>2010</u>	<u>2009</u>	<u>Percent Change 2009 - 2010</u>
Major funds:			
General fund	\$ 1,787,158	\$ (149,117)	1,298.5%
Special revenue funds -			
Sewer fund	1,386,571	743,907	86.1%
Special grant fund	842,220	1,099,032	-23.4%
Water fund	761,735	702,667	8.4%
Capital projects fund	1,811,311	3,219,090	-43.7%
Total nonmajor funds	<u>111,182</u>	<u>155,800</u>	-28.6%
 Total governmental funds	 <u>\$ 6,700,177</u>	 <u>\$ 5,771,379</u>	 16.1%

General Fund Budgetary Highlights

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

One significant budget variance was in real property taxes and tax items, which showed a favorable variance of \$1,229,544. This was mainly due to an increase in tax collections as a result of in rem proceedings taken during the year. State sources showed an unfavorable variance of \$409,873 primarily because the Consolidated Local Street and Highway Improvement Program (CHIPS) grant is now recorded in the Capital Projects Fund instead of the General Fund.

The actual charges to appropriations (expenditures), in total, were less than the final budget amounts by \$1,038,589. The most significant budget variances were expenditures in transportation and employee benefits at \$528,043 and \$293,730, respectively, below the final budgeted amounts. Transportation was lower than budgeted primarily because of a change in reporting of the CHIPS expenditures, as mentioned above. Employee benefits were lower than budgeted due to retirements that occurred in 2010.

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES

Capital Assets

At the end of December 31, 2010, the City had \$27,055,824, net of accumulated depreciation of \$19,512,129, invested in a broad range of capital assets, including buildings, machinery and equipment, and roads and bridges. This amount represents a net increase of \$607,817 over 2009. The increase in net capital assets is comprised of additions of \$2,058,225, increases in accumulated depreciation of \$1,421,388, and disposals net of accumulated depreciation of \$29,020.

Figure 8
Capital Assets, at Historical Cost

	Governmental Activities		Percent Change 2009 - 2010
	2010	2009	
Land	\$ 1,487,500	\$ 1,487,500	0%
Buildings and improvements, net	13,909,660	14,276,446	-2.6%
Machinery and equipment, net	5,608,820	4,653,052	20.5%
Infrastructure, net	<u>6,049,844</u>	<u>6,031,009</u>	.3%
Total	<u>\$ 27,055,824</u>	<u>\$ 26,448,007</u>	2.3%

Debt Administration

Debt (notes, bonds and BANs payable), considered a liability of Governmental Activities, decreased by \$1,880,345, bringing total debt outstanding to \$17,043,809 as of December 31, 2010, as shown in Figure 9. Of the amount of bonds outstanding, \$12,105,000 is subject to the constitutional debt limit and represented 37% of the City's statutory debt limit. The City's bond rating is currently BBB from Standard & Poor's.

Figure 9
Outstanding Debt at Year End

	Governmental Activities		Percent Change 2009 - 2010
	2010	2009	
Capital notes	\$ 38,809	\$ 49,154	-21.0%
Serial bonds	<u>17,005,000</u>	<u>18,875,000</u>	-9.9%
Total	<u>\$ 17,043,809</u>	<u>\$ 18,924,154</u>	-9.9%

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)

Noncurrent Liabilities

In 2010, the City's noncurrent liabilities increased \$2,805,585 because of Government Accounting Standards Board (GASB) Statement Number 45. GASB Statement Number 45 requires the City to recognize, according to a prescribed actuarial calculation, its obligation for "other postemployment benefits" (OPEB). In the case of the City, this obligation consists of health benefits promised to its current and future retirees. Based on a study of the City's numerous benefit packages and the effected population, actuaries have determined the value of the benefits earned in prior years, as well as the value earned during 2010.

The City's annual OPEB cost is calculated based on the annual actuarially determined required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of thirty years. The City's ARC for the year ended December 31, 2010, was calculated to be \$4,510,571 compared to \$3,693,168 at December 31, 2009. The City contributed \$1,614,652 on behalf of its retirees, resulting in a noncurrent liability of \$7,527,392 at December 31, 2010.

Additionally, the City had a liability of \$4,798,375 for compensated absences as of December 31, 2010. The value of the earned and unused portion of the noncurrent liability for compensated absences at December 31, 2009 was \$6,740,285. This decrease was because of a significant number of retirements taken during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts needed for appropriation in the December 31, 2011 General Fund budget are \$17,235,605, a decrease of \$506,131, or 2.9% less than the original December 31, 2010 budget of \$17,741,736. This decrease enabled the City to achieve a 0% tax increase for 2011.

The following is a summary of currently known facts, decisions, or conditions expected to have a significant effect on the City's financial position.

- Taxes receivable decreased nearly \$766,000 in 2010. A major factor in the turnaround is the City's adoption of the In Rem Foreclosure process to enforce the payment of delinquent taxes. The City held its first Tax Foreclosure auction in over 20 years in July 2010, and saw a drastic improvement in overall tax collections as a result of the new process. The current tax year collection rate went from 94% in 2007 to 97% in 2010, an increase of over \$300,000 in tax revenue. We expect this trend to continue in 2011 and beyond.
- Sales tax revenue surpassed the 2010 budgeted revenue of \$4.2 million by nearly \$250,000 and continues to be the second largest source of revenue for the City.
- The City is actively looking for ways to reduce Health Insurance costs, contracting with a new broker and forming a Wellness Committee to evaluate cost-saving options. The decision to move to a contingent premium plan is expected to generate significant savings in 2011 as the committee continues to evaluate alternate plans.

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

- For the second year, the New York Jets held their 2010 summer training camp at S.U.N.Y. Cortland, attracting 41,000 fans and generating \$5.8 million in economic activity, a 36% increase over the \$4.6 million generated by the 2009 camp. The Jets had committed to return for at least the next 3 years, signing an agreement in early 2010. However, due to logistical concerns caused by the ongoing dispute between NFL owners and players, they will not be holding their training camp in Cortland in 2011. Team officials have pledged to return in 2012 and 2013, fulfilling the terms of their agreement with the College.
- Along the busy Route 81 corridor, a new Perkins Restaurant opened in 2010. Just behind it, a Holiday Inn Express is slated to open in the summer of 2011. Further enhancing the area's growth in tourism, Greek Peak Ski Resort celebrated the opening of Hope Lake Lodge and Indoor Water Park in late 2009. Efforts to turn the resort into a year-round destination continue with an \$11 million expansion that includes a 10,000 square foot convention center and an Adventure Center featuring an alpine slide, zip lines and more set to open in 2011. In nearby Cortlandville, a new Super Walmart opened in 2010 and a new Lowe's is under construction, opening in 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CORTLAND, NEW YORK

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents - unrestricted	\$ 6,382,821
Cash and cash equivalents - restricted	287,355
Other receivables, net	1,452,763
Loans receivable	2,945,271
Due from Federal and State governments	593,184
Taxes receivables, net	1,989,444
Due from other funds, net	22,336
Capital assets, net	<u>27,055,824</u>
Total assets	<u>40,728,998</u>
LIABILITIES	
Accounts payable	1,166,766
Accrued liabilities	1,082,762
Long-term liabilities -	
Due within one year	1,745,142
Due in more than one year	<u>27,624,434</u>
Total liabilities	<u>31,619,104</u>
NET ASSETS	
Invested in capital assets, net of related debt	8,200,704
Restricted -	
Community development	842,220
Unrestricted -	
Undesignated	<u>66,970</u>
Total net assets	<u>\$ 9,109,894</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 1,840,736	\$ 418,970	\$ 2,764,798	\$ -	\$ 1,343,032
Public safety	10,673,912	132,609	50,912	124,366	(10,366,025)
Transportation	1,604,046	105,537	229,741	-	(1,268,768)
Economic assistance and opportunity	367,236	-	-	-	(367,236)
Culture and recreation	1,554,376	209,782	43,156	-	(1,301,438)
Home and community services	4,959,929	5,487,832	324,350	-	852,253
Interest on long-term debt	768,057	-	-	-	(768,057)
Depreciation - unallocated	<u>1,421,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,421,388)</u>
Total governmental activities	<u>23,189,680</u>	<u>6,354,730</u>	<u>3,412,957</u>	<u>124,366</u>	<u>(13,297,627)</u>
GENERAL REVENUES:					
Real property taxes and real property tax items					9,695,671
Nonproperty tax items					4,908,447
Use of money and property					74,287
Miscellaneous					<u>229,337</u>
Total general revenues					<u>14,907,742</u>
Change in net assets					1,610,115
Net assets - beginning of year					<u>7,499,779</u>
Net assets - end of year					<u>\$ 9,109,894</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Special Grant Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents - unrestricted	\$ 2,993,439	\$ 333,227	\$ 704,697	\$ 389,548	\$ 1,850,728	\$ 111,182	\$ 6,382,821
Cash and cash equivalents - restricted	-	212,390	74,965	-	-	-	287,355
Due from Federal and State governments	462,795	-	66,968	-	63,421	-	593,184
Taxes receivable, net	1,989,444	-	-	-	-	-	1,989,444
Other receivables	127,014	807,166	-	518,583	-	-	1,452,763
Loans receivable	-	-	2,945,271	-	-	-	2,945,271
Due from other funds	<u>627,866</u>	<u>207,908</u>	<u>-</u>	<u>2,500</u>	<u>417,184</u>	<u>-</u>	<u>1,255,458</u>
Total assets	<u>\$ 6,200,558</u>	<u>\$ 1,560,691</u>	<u>\$ 3,791,901</u>	<u>\$ 910,631</u>	<u>\$ 2,331,333</u>	<u>\$ 111,182</u>	<u>\$ 14,906,296</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$ 937,646	\$ -	\$ -	\$ -	\$ 229,120	\$ -	\$ 1,166,766
Accrued liabilities	917,665	-	-	-	-	-	917,665
Due to other funds	614,794	174,120	4,410	148,896	290,902	-	1,233,122
Deferred revenues	<u>1,943,295</u>	<u>-</u>	<u>2,945,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,888,566</u>
Total liabilities	<u>4,413,400</u>	<u>174,120</u>	<u>2,949,681</u>	<u>148,896</u>	<u>520,022</u>	<u>-</u>	<u>8,206,119</u>
FUND BALANCES:							
Reserved -							
Encumbrances	198,864	-	-	-	-	-	198,864
Bonded debt	87,290	263,111	-	66,639	-	-	417,040
Insurance	912	-	-	-	-	-	912
Repairs	-	19,134	-	-	-	-	19,134
Miscellaneous revenue	-	-	74,965	-	-	-	74,965
Capital	-	-	-	108,037	-	-	108,037
Unreserved -							
Unappropriated	<u>1,500,092</u>	<u>1,104,326</u>	<u>767,255</u>	<u>587,059</u>	<u>1,811,311</u>	<u>111,182</u>	<u>5,881,225</u>
Total fund balances	<u>1,787,158</u>	<u>1,386,571</u>	<u>842,220</u>	<u>761,735</u>	<u>1,811,311</u>	<u>111,182</u>	<u>6,700,177</u>
Total liabilities and fund balances	<u>\$ 6,200,558</u>	<u>\$ 1,560,691</u>	<u>\$ 3,791,901</u>	<u>\$ 910,631</u>	<u>\$ 2,331,333</u>	<u>\$ 111,182</u>	<u>\$ 14,906,296</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Total fund balance - governmental funds		\$	6,700,177
Total net assets reported for governmental activities in the statement of net assets 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	\$	46,567,953
	Accumulated depreciation		<u>(19,512,129)</u>
			27,055,824
Revenue related to the tax levy is recognized when earned in the statement of activities, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end.			
			4,888,566
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 assets when incurred.			
			(165,097)
Bonds payable and other noncurrent liabilities are not due and payable in the current period and; therefore, are not reported in the funds.			
	Bonds payable	\$	(17,005,000)
	Compensated absences		(4,798,375)
	Other postemployment benefits		(7,527,392)
	Notes payable		<u>(38,809)</u>
			<u>(29,369,576)</u>
Total net assets of governmental activities		\$	<u>9,109,894</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
REVENUES:							
Real property taxes and tax items	\$ 9,500,803	\$ 1,202,750	\$ -	\$ -	\$ -	\$ -	\$ 10,703,553
Nonproperty tax items	4,908,447	-	-	-	-	-	4,908,447
Departmental income	731,200	2,527,409	791,494	1,630,311	-	-	5,680,414
Intergovernmental charges	255,899	17,631	-	-	-	-	273,530
Use of money and property	64,520	706	5,448	3,605	8	-	74,287
Licenses and permits	91,316	-	-	45	-	-	91,361
Fines and forfeitures	272,453	-	-	-	-	-	272,453
Interfund revenue	-	-	-	36,972	-	-	36,972
Sale of property and compensation for loss	33,305	-	-	4,078	-	-	37,383
Miscellaneous	16,491	-	-	52,543	72,126	50,794	191,954
State aid	2,287,159	-	542,500	-	229,741	-	3,059,400
Federal aid	41,716	-	324,350	-	111,857	-	477,923
Total revenues	18,203,309	3,748,496	1,663,792	1,727,554	413,732	50,794	25,807,677
EXPENDITURES:							
General governmental support	1,208,843	35,066	-	13,499	-	6,865	1,264,273
Public safety	6,654,463	-	-	-	818,140	1,395	7,473,998
Transportation	1,199,959	-	-	-	467,985	-	1,667,944
Economic assistance and opportunity	-	-	367,236	-	-	-	367,236
Culture and recreation	918,140	-	-	-	12,568	87,152	1,017,860
Home and community services	526,182	1,455,590	1,553,368	804,912	522,818	-	4,862,870
Employee benefits	4,904,994	265,115	-	351,820	-	-	5,521,929
Debt service -							
Principal	872,416	806,425	-	191,159	-	-	1,870,000
Interest	369,725	338,209	-	124,835	-	-	832,769
Total expenditures	16,654,722	2,900,405	1,920,604	1,486,225	1,821,511	95,412	24,878,879
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,548,587	848,091	(256,812)	241,329	(1,407,779)	(44,618)	928,798
OTHER FINANCING SOURCES (USES):							
Operating transfers - in	387,688	-	-	-	-	-	387,688
Operating transfers - out	-	(205,427)	-	(182,261)	-	-	(387,688)
Total other financing sources and uses	387,688	(205,427)	-	(182,261)	-	-	-
CHANGE IN FUND BALANCE	1,936,275	642,664	(256,812)	59,068	(1,407,779)	(44,618)	928,798
FUND BALANCE - beginning of year	(149,117)	743,907	1,099,032	702,667	3,219,090	155,800	5,771,379
FUND BALANCE - end of year	\$ 1,787,158	\$ 1,386,571	\$ 842,220	\$ 761,735	\$ 1,811,311	\$ 111,182	\$ 6,700,177

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - governmental funds \$ 928,798

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report outlays for capital assets as expenditures
because such outlays use current financial resources.

Also, depreciation expense is recorded in the statement of activities
over the estimated useful lives of the assets, but not as a change
in fund balance of the governmental funds as there is no cash outlay
associated with the expense.

Capital additions	\$ 2,058,225	
Depreciation	<u>(1,421,388)</u>	
		636,837

Deferred tax revenues are recorded on the modified accrual basis,
but are not reported in the government-wide financial statements. (1,007,882)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net
assets. 1,870,000

Losses on disposal of assets are reported in the statement of activities,
but are not included in the governmental funds. (29,020)

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

Capital lease obligation principal	\$ 10,345	
Change in accrued interest payable	64,712	
Compensated absences	1,941,910	
Other post employment benefits	<u>(2,805,585)</u>	<u>(788,618)</u>

Change in net assets of governmental activities \$ 1,610,115

CITY OF CORTLAND, NEW YORK

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2010**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 97,246
Other assets	<u>309</u>
Total assets	<u>\$ 97,555</u>
LIABILITIES	
Due to other funds	\$ 22,336
Agency liabilities	<u>75,219</u>
Total liabilities	<u>\$ 97,555</u>

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

1. Related Organizations

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

Cortland Housing Authority (the Authority)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

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

1. Government-Wide Financial Statements

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

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

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

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

2. Governmental Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

2. Governmental Fund Financial Statements (Continued)

The City records its transactions in the funds described below:

- **Governmental Funds**

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

- **Major Funds**

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

- **Nonmajor Funds**

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

- **Fiduciary Fund Types**

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting/Measurement Focus

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

1. Accrual Basis

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

2. Modified Accrual Basis

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

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

D. Deferred Revenues

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property Taxes

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

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

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

F. Receivables

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

Loans receivable are carried at unpaid principal balances. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The City reviews outstanding loans receivable for collectability and records an allowance for uncollectible accounts based on that review. When all collection efforts have been exhausted, the account is written-off as uncollectible. At December 31, 2010, management considered all amounts fully collectible and, accordingly, no reserve had been established.

G. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments of three months or less are considered as cash equivalents.

H. Capital Assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Insurance

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

J. Vacation, Sick Leave and Compensated Absences

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

K. Postemployment Benefits

In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors in accordance with union contracts. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City, and have accumulated a certain number of hours of sick leave. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the year, \$1,527,446 was paid on behalf of 107 retirees as an expenditure in the General Fund. In addition, \$87,206 was paid on behalf of 7 retirees as an expenditure in the Water Fund. In the Statement of Activities, the City's Annual Required Contribution, net of retiree contributions, is expensed.

L. Use of Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Equity Classifications

1. Government-Wide Financial Statements

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

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

2. Governmental Fund Financial Statements

Governmental Fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. The following reserve funds are utilized by the City:

- **Encumbrance Reserve**
Represents amount of outstanding encumbrances at the end of the fiscal year. This reserve is accounted for in the General Fund.
- **Insurance Reserve**
Used to accumulate funds to pay minor uninsured claims. This reserve is accounted for in the General Fund.
- **Repairs Reserve**
Used to accumulate funds to pay the cost of major repairs to capital improvements or equipment. This reserve is accounted for in the Sewer Fund.
- **Bonded Debt Reserve**
Used for retiring outstanding obligations. This reserve is accounted for in the General, Sewer and Water Funds.
- **Capital Reserve**
Used to accumulate funds for future capital projects. This reserve is accounted for in the Water Fund.

N. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the City’s policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

The budget policies are as follows:

- 1) On or before September 1st of each year, the various Boards of Commissioners, or person appointed as administrative head in the absence of a Board of Commissioners, shall submit to the Mayor their budgets for the ensuing fiscal year. In the event a budget is not submitted, the Mayor shall direct the Director of Finance and Administration to prepare one. The Mayor and the Director of Finance and Administration then review the submitted budgets.
- 2) By October 15th, the Mayor shall submit the tentative City budget to the Common Council and file it with the City Clerk. Upon filing the tentative City budget, a notice shall be placed in the official newspapers of the City.
- 3) By November 15th, the Mayor shall approve the tentative City budget which shall then become the proposed budget and a notice shall be published in the official newspapers.
- 4) No later than December 1st, the proposed budget is published in the official newspapers and a notice of the place and time of the public hearing to be held no later than December 15th.
- 5) After the public hearing, by December 31st, the Common Council shall adopt the final City budget.
- 6) All modifications of the budget must be approved by the Common Council.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

7) Annual budgets adopted represent a legal limit on expenditures for that time period. At the end of each year, unexpended, unencumbered appropriations lapse.

- **Budget/GAAP Reconciliation**

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

GAAP basis fund balance at December 31, 2010	\$ 1,787,158
Less: Outstanding encumbrances	<u>(198,864)</u>
Budgetary basis fund balance at December 31, 2010	<u>\$ 1,588,294</u>

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

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

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Primary Government, including Fiduciary Funds

Total deposits of cash and cash equivalents are as follows for the years ended December 31, 2010:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 3,508,493	\$ 4,190,662
Time deposits	<u>3,161,683</u>	<u>3,161,683</u>
Total cash and investments	<u>\$ 6,670,176</u>	<u>\$ 7,352,345</u>
Insured cash - FDIC		\$ 1,475,870
Uninsured - collateralized with securities held by pledging financial institution		<u>12,706,643</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 14,182,513</u>

4. RECEIVABLES

Receivables at December 31, 2010 are as follows:

General Fund:

Taxes receivable, net	\$ 1,989,444
Due from federal and state governments	462,795
Other receivables	<u>127,014</u>

Total general fund 2,579,253

Capital Projects Fund:

Due from federal and state governments	<u>63,421</u>
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Special Revenue Funds:

Sewer fund:	
Sewer rents receivable	<u>807,166</u>

Water Fund:

Water rents receivable	<u>518,583</u>
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Special Grant Fund:

Loans receivable	2,945,271
Due from federal and state governments	<u>66,968</u>

Total special grant fund 3,012,239

Total receivables - government activities \$ 6,980,662

5. PROPERTY TAXES

At December 31, 2010, the total real property tax receivables of \$2,039,444 are offset by an allowance for uncollectible taxes of \$50,000. The remaining portion of property tax receivables is partially offset by deferred tax revenue of \$1,898,205 and represents an estimate of the tax liens which will not be collected within the first sixty days of the subsequent year.

The 2010 real property tax levy for general City purposes totaled \$7,965,078. The City is permitted by the Constitution of the State to levy taxes up to 2% of the 5-year average for assessed valuation for general governmental services other than the payment of debt service and capital expenditures. The tax levy subject to the constitutional tax limit after exclusions of \$2,731,722 totaled \$5,233,356. The constitutional tax limit of the City for the fiscal year ended December 31, 2010 was \$9,812,569, leaving a margin of \$4,579,213.

6. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2010 follows:

	Balance at <u>12/31/09</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>12/31/10</u>
Governmental Activities					
Non-depreciable capital assets:					
Land	\$ 1,487,500	\$ -	\$ -	\$ -	\$ 1,487,500
Total non-depreciable capital assets	<u>1,487,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,487,500</u>
Depreciable capital assets:					
Building and improvements	19,418,964	-	15,480	-	19,434,444
Machinery and equipment	15,963,702	1,010,836	1,520,653	(435,315)	18,059,876
Infrastructure	<u>8,074,877</u>	<u>(1,010,836)</u>	<u>522,092</u>	<u>-</u>	<u>7,586,133</u>
Total depreciable capital assets	<u>43,457,543</u>	<u>-</u>	<u>2,058,225</u>	<u>(435,315)</u>	<u>45,080,453</u>
Less accumulated depreciation:					
Building and improvements	(5,142,518)	7,932	(390,198)	-	(5,524,784)
Machinery and equipment	(11,310,650)	(950,400)	(596,301)	406,295	(12,451,056)
Infrastructure	<u>(2,043,868)</u>	<u>942,468</u>	<u>(434,889)</u>	<u>-</u>	<u>(1,536,289)</u>
Total accumulated depreciation	<u>(18,497,036)</u>	<u>-</u>	<u>(1,421,388)</u>	<u>406,295</u>	<u>(19,512,129)</u>
Total depreciable capital assets, net	<u>24,960,507</u>	<u>-</u>	<u>636,837</u>	<u>(29,020)</u>	<u>25,568,324</u>
Capital assets, net	<u>\$ 26,448,007</u>	<u>\$ -</u>	<u>\$ 636,837</u>	<u>\$ (29,020)</u>	<u>\$ 27,055,824</u>

7. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

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

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

Funding Policy

The Systems are noncontributory except for employees who joined the ERS after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

<u>Year</u>	<u>ERS</u>	<u>PFRS</u>
2010	\$ 373,991	\$ 839,238
2009	\$ 202,794	\$ 731,237
2008	\$ 292,863	\$ 754,009

The City's contributions made to the Systems were equal to 100% of the contributions required for each year.

On May 14, 2003, Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g. billings due February 2011 would be based on the pension value as of March 31, 2010).
- Allows one-time financing of State fiscal year 2004-2005 pension cost by permitting local governments to bond, over five years, any required contribution in excess of 7% of estimated salaries or to amortize required contributions in excess of 7% over a five year period. (Superseded by Chapter 260 of the Laws of 2004. See below).

7. PENSION PLAN (Continued)

On July 30, 2004, Chapter 260 of the Laws of 2004 of the State of New York was enacted and allows local employers to bond or amortize a portion of their retirement bill for up to ten years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered pensionable salaries.

This law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2007. The City has opted not to amortize.

8. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

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

Funding Policy

The contribution requirements of Plan members and the City are established and may be amended by the City Common Council. The City Common Council has negotiated several collective bargaining agreements, which include obligations of Plan members and the City. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2010, the City contributed \$1,614,652 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.

Annual OPEB Cost and Net OPEB Obligation

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

8. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Normal cost	\$ 1,542,460
Amortization of UAAL	<u>2,968,111</u>
Total annual required contribution	4,510,571
Interest on net OPEB obligation	204,091
Adjustment to annual required contribution	<u>(294,425)</u>
Annual OPEB cost	4,420,237
Contributions made	<u>(1,614,652)</u>
Increase in net OPEB obligation	2,805,585
NET OPEB obligation - January 1, 2010	<u>4,721,807</u>
NET OPEB obligation - December 31, 2010	<u>\$ 7,527,392</u>

Trend Information

The following table provides trend information for the Retirement Plan:

Year	Annual OPEB	Actual	Percent	Net OPEB
<u>Ended</u>	<u>Cost</u>	<u>Employer</u>	<u>Contributed</u>	<u>Obligation</u>
		<u>Contribution</u>		
2010	\$4,420,237	\$1,614,652	36.5%	\$7,527,392
2009	\$3,693,168	\$1,376,762	37.3%	\$4,721,807
2008	\$3,536,556	\$1,103,405	31.2%	\$2,405,401

Schedule of Funding Progress for the City's Retirement Plan

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of 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		Actuarial	Actuarial	Unfunded AAL	Funded	Covered	UAAL as a
Valuation	Year	Value of	Accrued	(UAAL)	Ratio	Payroll	% of
<u>Date</u>	<u>Ended</u>	<u>Assets (a)</u>	<u>(AAL) (b)</u>	<u>(b) - (a)</u>	<u>(a)/(b)</u>	<u>(c)</u>	<u>Covered</u>
							<u>Payroll</u>
							<u>(b-a)/(c)</u>
1/1/2010	12/31/10	\$ -	\$ 49,457,817	\$ 49,457,817	0.0%	\$ 8,418,532	587.5%
1/1/2008	12/31/09	\$ -	\$ 41,758,966	\$ 41,758,966	0.0%	\$ 9,248,297	451.5%
1/1/2008	12/31/08	\$ -	\$ 39,927,151	\$ 39,927,151	0.0%	\$ 9,111,394	438.2%

8. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2010 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	8.5% initially, reduced by decrements each year to an ultimate rate of 4.2% in 2080.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Closed

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

9. SHORT-TERM DEBT

Liabilities for Bond Anticipation Notes (BANs) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. The City did not issue or redeem any BANs during 2010.

10. LONG-TERM DEBT

Constitutional Debt Limit

At December 31, 2010, the total outstanding indebtedness of the City aggregated to \$17,043,809. Of this amount, \$12,105,000 was subject to the City's constitutional debt limit, and represented approximately 37% of its debt limit.

Serial Bonds

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

10. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term liabilities for the year ended December 31, 2010:

<u>Description</u>	<u>Outstanding 12/31/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 12/31/10</u>	<u>Due Within One Year</u>
Bonds	\$ 18,875,000	\$ -	\$ (1,870,000)	\$ 17,005,000	\$ 1,740,000
Capital notes	49,154	-	(10,345)	38,809	5,142
Other post employment benefits	4,721,807	4,420,237	(1,614,652)	7,527,392	-
Compensated absences	<u>6,740,285</u>	<u>-</u>	<u>(1,941,910)</u>	<u>4,798,375</u>	<u>-</u>
Total	<u>\$ 30,386,246</u>	<u>\$ 4,420,237</u>	<u>\$ (5,429,074)</u>	<u>\$ 29,369,576</u>	<u>\$ 1,745,142</u>

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

For the year ended December 31, 2010, the City recognized interest expense of \$832,769 on long-term debt in the Governmental Funds; an additional \$65,550 was subsidized by the New York State Environmental Facilities Corporation. Interest paid on Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Interest expense of Governmental Activities is calculated as follows:

Interest expenditure - Governmental funds	\$ 832,769
Add: Interest accrued at December 31, 2010	165,097
Less: Interest accrued at December 31, 2009	<u>(229,809)</u>
Total interest expense - governmental activities	<u>\$ 768,057</u>

10. LONG-TERM DEBT (Continued)

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

<u>Bonds Payable</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Interest</u>	<u>Final Balance</u>	Amount Due Within One <u>Year</u>
Public improvement Wastewater reconstruction	6/1993 11/1994	6/2003 11/2015	4.75% 4.1%-6.9%	\$ 75,000 3,410,000	\$ 25,000 650,000
Public improvement General Purpose	5/2000 1/2002	5/2013 1/2014	5.7% 4.25%-4.5%	415,000 1,575,000	130,000 365,000
Public improvement	6/2005	6/2021	3.85%-3.9%	2,600,000	190,000
Public improvement Refunding of 1996 Public Imp.	6/2006 3/2008	6/2031 3/2021	4.125%-4.25% 3.25%-4.375%	3,560,000 1,490,000	105,000 125,000
Public improvement	2/2009	2/2027	4.5%-4.875%	<u>3,880,000</u>	<u>150,000</u>
Total				<u>\$ 17,005,000</u>	<u>\$ 1,740,000</u>

On March 13, 2009 the City issued \$1,865,000 general obligation bonds, with interest rates ranging between 3.25% and 4.375%. The City issued the bonds to advance refund \$1,750,000 of the outstanding 1996 public improvements bonds with an interest rate of 5.40%. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 series bonds. As a result, the \$1,750,000 in bonds is considered defeased and the liability has been removed from the financial statements. The outstanding principal of the defeased bonds is \$1,555,000 at December 31, 2010. The net present value of the total debt service payments over the life of the bond will result in an economic gain of \$99,783.

On February 15, 2009 the City issued general obligation bonds in the amount of \$3,880,000 with interest rates ranging between 4.5% and 4.875% and a final maturity on February 15, 2027 to pay the cost of certain capital improvements and items in and for the City.

The following table summarizes the City's future debt service requirements as of December 31, 2010 (interest expenditures do not include subsidy amounts that may be received from New York State):

<u>Year Ending December 31,</u>	<u>Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,740,000	\$ 746,394	\$ 5,142	\$ 970
2012	1,815,000	661,882	5,270	842
2013	1,890,000	568,777	5,402	710
2014	1,780,000	484,359	5,537	575
2015	1,370,000	407,567	5,676	436
2016 - 2020	3,875,000	1,425,102	11,782	442
2021 - 2025	2,525,000	704,683	-	-
2026 - 2030	1,755,000	208,201	-	-
2031	<u>255,000</u>	<u>5,419</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,005,000</u>	<u>\$ 5,212,384</u>	<u>\$ 38,809</u>	<u>\$ 3,975</u>

11. INTERFUND ACTIVITIES

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

Interfund receivables and payables at December 31, 2010 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenue</u>	<u>Interfund Expense</u>
General fund	\$ 627,866	\$ 614,794	\$ 387,688	\$ -
Water fund	2,500	148,896	-	182,261
Sewer fund	207,908	174,120	-	205,427
Special grant fund	-	4,410	-	-
Agency fund	-	22,336	-	-
Capital projects fund	<u>417,184</u>	<u>290,902</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,255,458</u>	<u>\$ 1,255,458</u>	<u>\$ 387,688</u>	<u>\$ 387,688</u>

12. PUBLIC ENTITY RISK POOL

Risk Financing

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

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

During the year ended December 31, 2010, the City incurred premiums or contribution expenditures totaling \$150,000.

13. COMMITMENTS AND CONTINGENCIES

General Information

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

13. COMMITMENTS AND CONTINGENCIES (Continued)

Judgments and Claims

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

State and Federally Assisted Programs

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

14. IMPACT OF FUTURE GASB PRONOUNCEMENTS

Fund Balance Classification

In March 2009, the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City is required to adopt the provisions of Statement No. 54 for the year ending December 31, 2011. The City's management has not yet assessed the impact of this statement on its future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CORTLAND, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 8,271,259	\$ 8,271,259	\$ 9,500,803	\$ 1,229,544
Nonproperty tax items	4,530,000	4,530,000	4,908,447	378,447
Departmental income	1,058,340	950,840	731,200	(219,640)
Intergovernmental charges	232,000	246,400	255,899	9,499
Use of money and property	56,672	56,672	64,520	7,848
Licenses and permits	83,250	83,250	91,316	8,066
Fines and forfeitures	149,200	256,700	272,453	15,753
Sale of property and compensation for loss	23,000	40,147	33,305	(6,842)
Miscellaneous	5,000	10,805	16,491	5,686
State aid	2,675,327	2,697,032	2,287,159	(409,873)
Federal aid	-	41,716	41,716	-
Total revenues	17,084,048	17,184,821	18,203,309	1,018,488
EXPENDITURES:				
General governmental support	1,160,417	1,215,582	1,218,827	(3,245)
Public safety	6,755,529	6,780,932	6,790,828	(9,896)
Transportation	1,728,126	1,728,002	1,199,959	528,043
Culture and recreation	999,583	1,019,788	918,140	101,648
Home and community services	650,360	650,484	578,697	71,787
Employee Benefits	5,198,724	5,198,724	4,904,994	293,730
Debt service -				
Principal	878,043	878,043	872,416	5,627
Interest	370,954	370,954	369,725	1,229
Total expenditures	17,741,736	17,842,509	16,853,586	988,923
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(657,688)	(657,688)	1,349,723	2,007,411
OTHER FINANCING SOURCES:				
Operating transfers - in	657,688	657,688	387,688	(270,000)
Total other financing sources	657,688	657,688	387,688	(270,000)
CHANGE IN FUND BALANCE	-	-	1,737,411	1,737,411
FUND BALANCE - beginning of year	-	-	(149,117)	(149,117)
FUND BALANCE - end of year	\$ -	\$ -	\$ 1,588,294	\$ 1,588,294

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

CITY OF CORTLAND, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - SEWER FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 1,166,731	\$ 1,166,731	\$ 1,202,750	\$ 36,019
Departmental income	2,400,919	2,400,919	2,527,409	126,490
Intergovernmental charges	25,000	25,000	17,631	(7,369)
Use of money and property	425	425	706	281
Total revenues	<u>3,593,075</u>	<u>3,593,075</u>	<u>3,748,496</u>	<u>155,421</u>
EXPENDITURES:				
General governmental support	157,000	104,815	35,066	69,749
Home and community services	1,712,332	1,764,517	1,455,590	308,927
Employee benefits	351,585	351,585	265,115	86,470
Debt service -				
Principal	806,425	806,425	806,425	-
Interest	360,306	360,306	338,209	22,097
Total expenditures	<u>3,387,648</u>	<u>3,387,648</u>	<u>2,900,405</u>	<u>487,243</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>205,427</u>	<u>205,427</u>	<u>848,091</u>	<u>642,664</u>
OTHER FINANCING USES:				
Operating transfers - out	<u>(205,427)</u>	<u>(205,427)</u>	<u>(205,427)</u>	<u>-</u>
Total other financing uses	<u>(205,427)</u>	<u>(205,427)</u>	<u>(205,427)</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	-	642,664	642,664
FUND BALANCE - beginning of year	<u>-</u>	<u>-</u>	<u>743,907</u>	<u>743,907</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,386,571</u>	<u>\$ 1,386,571</u>

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

CITY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
REVENUES:				
Departmental income	\$ 1,756,245	\$ 1,756,245	\$ 1,630,311	\$ (125,934)
Use of money and property	4,600	4,600	3,605	(995)
Licenses and permits	100	100	45	(55)
Interfund revenue	-	-	36,972	36,972
Sale of property and compensation for loss	1,500	1,500	4,078	2,578
Miscellaneous	<u>11,500</u>	<u>11,500</u>	<u>52,543</u>	<u>41,043</u>
Total revenues	<u>1,773,945</u>	<u>1,773,945</u>	<u>1,727,554</u>	<u>(46,391)</u>
EXPENDITURES:				
General governmental support	70,000	48,023	13,499	34,524
Home and community services	897,662	918,845	804,912	113,933
Employee benefits	370,000	370,794	351,820	18,974
Debt service				
Principal	191,159	191,159	191,159	-
Interest	<u>124,835</u>	<u>124,835</u>	<u>124,835</u>	<u>-</u>
Total expenditures	<u>1,653,656</u>	<u>1,653,656</u>	<u>1,486,225</u>	<u>167,431</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>120,289</u>	<u>120,289</u>	<u>241,329</u>	<u>121,040</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - in	61,972	61,972	-	(61,972)
Operating transfers - out	<u>(182,261)</u>	<u>(182,261)</u>	<u>(182,261)</u>	<u>-</u>
Total other financing sources (uses)	<u>(120,289)</u>	<u>(120,289)</u>	<u>(182,261)</u>	<u>(61,972)</u>
CHANGE IN FUND BALANCE	-	-	59,068	59,068
FUND BALANCE - beginning of year	<u>-</u>	<u>-</u>	<u>702,667</u>	<u>702,667</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,735</u>	<u>\$ 761,735</u>

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

SECTION B

OMB CIRCULAR A-133

**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 19, 2011

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (Finding 2010-1). *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.

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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated September 19, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Common Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

September 19, 2011

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

Compliance

We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2010.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)**

Internal Control Over Compliance

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

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Common Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CITY OF CORTLAND, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	81,156
Passed through NYS Office of Community Renewal -			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	116,379
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	258HR177-08	161,485
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285HR112-09	64,547
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285ME691-10	98,519
			<u>522,086</u>
Passed through the NYS Division of Housing and Community Renewal -			
Home Investment Partnerships Program	14.239	20060160	29,999
Home Investment Partnerships Program	14.239	20073053	215,255
Home Investment Partnerships Program	14.239	20093169	164,748
			<u>410,002</u>
Total U.S. Department of Housing and Urban Development			<u>932,088</u>
U.S. Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	10,761
ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	N/A	<u>37,452</u>
Total U.S. Department of Justice			<u>48,213</u>
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	N/A	<u>124,366</u>
Total U.S. Department of Homeland Security			<u>124,366</u>
Total Expenditures of Federal Awards			<u>1,104,667</u>

Note: Bold items denote major programs.

CITY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2010

1. GENERAL

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

2. PASS-THROUGH PROGRAMS

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

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

3. BASIS OF ACCOUNTING

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

4. INDIRECT COSTS

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

5. MATCHING COSTS

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

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Cortland, New York (the City).
2. A significant deficiency relating to the audit of the basic financial statements is reported in the 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 City 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 Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the City's major federal award programs expresses an unqualified opinion.
6. There are no audit findings relative to major federal award programs for the City.
7. The programs tested as major programs were:
 - CFDA No. 14.428 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
 - CFDA No. 14.239 Home Investment Partnerships Program
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2010-1 - Accounting Policy and Procedures Manual

Condition: The City does not have a current accounting policy and procedures manual.

Criteria: A strong set of internal controls requires the use of an accounting policy and procedures manual.

Effect: A formal accounting policy and procedures manual could assist the City in standardizing its accounting processes and could be used to inform all employees of desired operating procedures and policies. Such a manual could greatly minimize the time required to train any new staff members with accounting responsibilities.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Finding 2010-1 - Accounting Policy and Procedures Manual (Continued)

Cause: A formal accounting policy and procedures manual has not been documented.

Recommendation: We recommend that the City review and document its accounting policies and procedures.

Management response: The City acknowledges the need to formally structure an Accounting Policy and Procedures Manual to ensure sound financial transactions and consistency.

Many of the items mentioned, such as job descriptions and a chart of accounts, exist in some form but are not centrally located. Policies and procedures exist as well, but are undocumented. It is our intention to build on this existing framework to develop an Accounting Policies and Procedures Manual, documenting policies and procedures, in accordance with the audit recommendation.

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

None.

SECTION C

NEW YORK STATE SINGLE AUDIT

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT OVER STATE
TRANSPORTATION ASSISTANCE EXPENDED
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 19, 2011

To the City Council of the
City of Cortland, New York:

Compliance

We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the state transportation assistance program tested for the year ended December 31, 2010. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to the program tested is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 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 programs tested has occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program tested for the year ended December 31, 2010.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(Continued)

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state transportation assistance programs. In planning and performing our audit, we considered the City's internal control over compliance for state transportation assistance expended that could have a direct and material effect on the state transportation assistance program tested to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 City's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a state 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 state program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management and the New York State Department of Transportation and is not intended to be used and should not be used by anyone other than these specified parties.

CITY OF CORTLAND, NEW YORK

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Program Title</u>	<u>NYSDOT Contract/ Ref. Number</u>	<u>Expenditures</u>
Consolidated Local Street and Highway Improvement Program (CHIPS)	N/A	\$ 229,741
		<u>\$ 229,741</u>

CITY OF CORTLAND, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2010

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. INDIRECT COSTS

There are no indirect costs in the accompanying schedule.

4. MATCHING COSTS

The costs associated with the federal and local shares of the Marchiselli projects are not included in the reported expenditures.

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2010

A. SUMMARY OF AUDIT RESULTS

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

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

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

C. COMPLIANCE FINDINGS AND QUESTIONED COSTS

There were no current year findings.