CITY OF CORTLAND, NEW YORK

Financial Statements as of
December 31, 2011
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

CITY OF CORTLAND, NEW YORK

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SECTION A

CITY OF CORTLAND, NEW YORK
BASIC FINANCIAL STATEMENTS

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

August 7, 2012

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2011, 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 August 7, 2012, 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.

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, and have issued our report thereon dated August 7, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and the accompanying schedule of state transportation assistance expended is presented for 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 financial statements. Such information is the responsibility of management and was derived from and relates 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 schedule of expenditure of federal awards and the schedule of state transportation assistance expended are fairly stated in all material respects in relation to the financial statements as a whole.

Bonadio & Co., LLP

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, 2011. 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 $9,308,903 (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 a deficit of $(5,325,562) at December 31, 2011.

- The City's annual required contribution (ARC) for other postemployment benefits (OPEB) for 2011 was $4,753,312. The City paid $1,721,496 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Assets of $10,408,741 for the remaining portion of the unfunded other postemployment benefit obligation.

- During the year, the City had revenues that exceeded expenses of $199,009, compared to last year, when the City had revenues that exceeded expenses of $1,610,115.

- General Fund revenues of $18,113,738 exceeded expenditures of $17,020,359 in 2011, supplemented by net transfers into the General Fund of $294,040, which increased fund balance by $1,387,419 for the year ended December 31, 2011.

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 19. 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, 2011 increased from $9,109,894 to $9,308,903. Of this amount, $11,111,948 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 $3,523,000 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. The balance, a deficit of approximately $5,326,000 is the portion of net assets which may or may not be available to meet the government's ongoing obligations to citizens and creditors, at December 31, 2011.

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 2010 - 2011
	2011	2010	
Current and other assets	$ 16,732,295	$ 13,673,174	22.4%
Capital assets, net	27,424,034	27,055,824	1.4%
Total assets	44,156,329	40,728,998	8.4%
Current and other non-debt liabilities	4,032,437	2,249,528	79.3%
Long-term debt - due in one year	3,097,165	2,944,736	5.2%
Long-term debt - due in more than one year	27,717,824	26,424,840	4.9%
Total liabilities	34,847,426	31,619,104	10.2%
Invested in capital assets, net of related debt	11,111,948	10,012,015	11.0%
Restricted	3,522,517	1,387,343	153.9%
Unrestricted	(5,325,562)	(2,289,464)	-132.6%
Total net assets	$ 9,308,903	$ 9,109,894	2.2%

The net assets of the City's Governmental Activities increased by $199,009 or 2.2%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints - decreased $3,036,098 or 132.6% from the prior year.

Rising OPEB costs contributed to the increase in long-term liabilities. Current liabilities increased due to timing of payments to vendors and other governments at year-end. Current assets increased primarily due to an increase in revenues.

THE CITY AS A WHOLE (Continued)

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

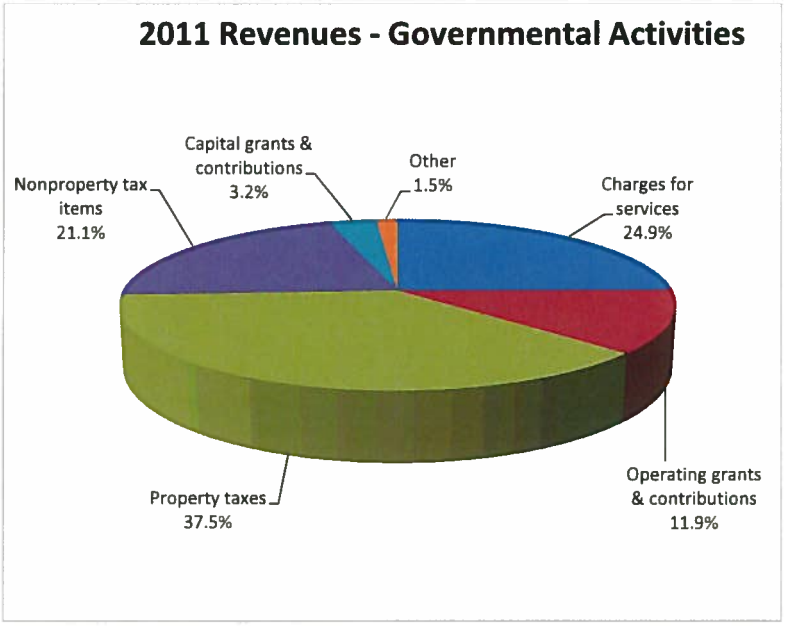
Figure 2
Changes in Net Assets

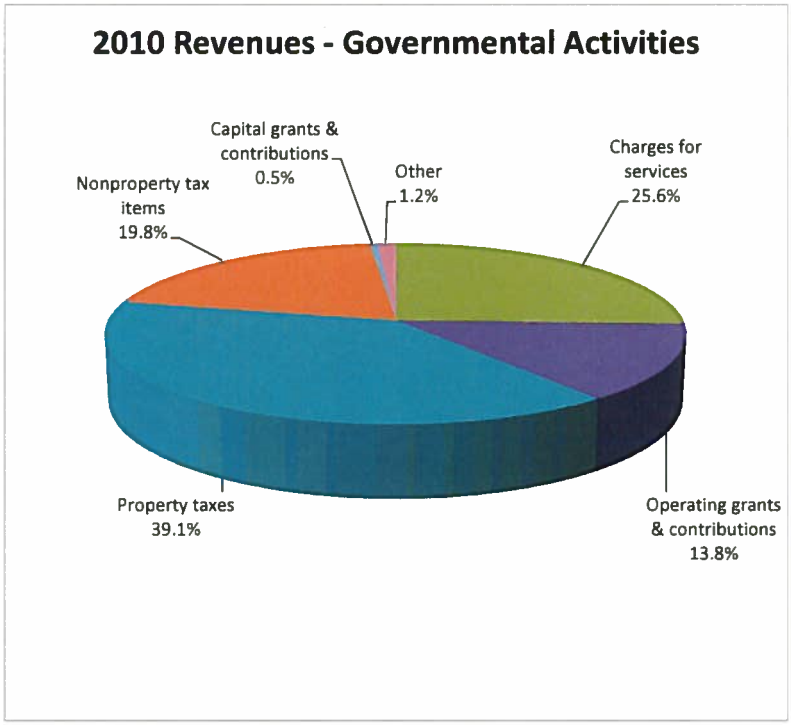
	Governmental Activities		Percent Change 2011 - 2010
	2011	2010	
REVENUES			
Program revenues:			
Charges for services	$ 6,234,979	$ 6,354,730	-1.9%
Operating grants	2,978,701	3,412,957	-12.7%
Capital grants	804,506	124,366	546.9%
General revenues:			
Property taxes and tax items	9,393,050	9,695,671	-3.1%
Nonproperty taxes	5,290,701	4,908,447	7.8%
Use of money and property	61,865	74,287	-16.7%
Other general revenues	308,207	229,337	34.4%
Total revenues	25,072,009	24,799,795	1.1%
EXPENSES			
General government	1,314,601	1,926,019	-31.7%
Public safety	12,662,344	10,915,548	16.0%
Transportation	2,769,938	2,058,890	34.5%
Economic assistance and opportunity	115,356	367,236	-68.6%
Culture and recreation	1,589,384	1,597,018	-0.5%
Home and community services	5,784,136	5,556,912	4.1%
Interest on long-term debt	637,241	768,057	-17.0%
Total expenses	24,873,000	23,189,680	7.3%
Increase (decrease) in net assets	$ 199,009	$ 1,610,115	-87.6%

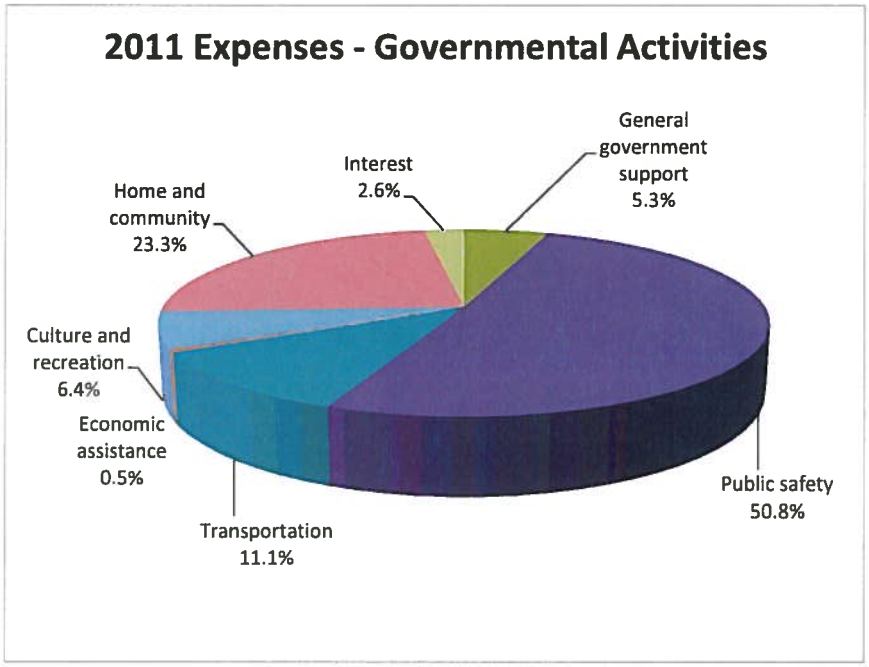
While total expenses for the City's governmental activities showed an increase of $1,683,320 or 7.3%, total revenues only increased by $272,214, or 1.1%. Increases in capital grants are largely due to an increase in an Assistance to Firefighters grant during the year which was used to finance the purchase of two fire trucks. Nonproperty taxes mostly consist of sales tax, which increased due to an improvement of general economic conditions.

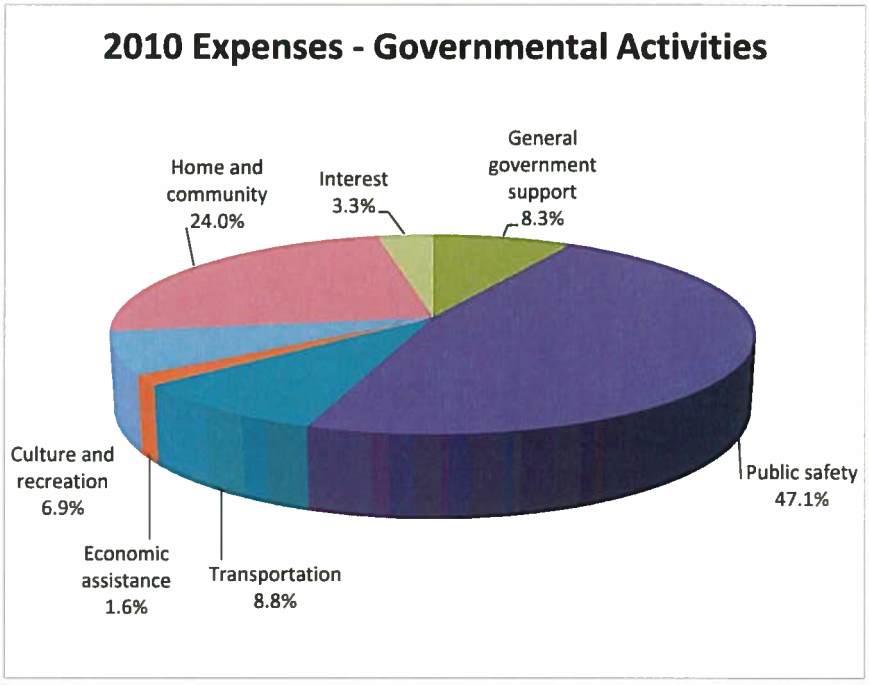
The cost of all Governmental Activities this year was $24,873,000. However, as shown in Figure 2 above, the amount that was ultimately financed through City's general revenues, including property taxes was $15,053,823. Overall, the City's governmental program revenues, including charges for services and operating and capital grants, were $10,018,186 in 2011.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2011 and 2010.


2011 Revenues - Governmental Activities
Capital grants & contributions 3.2%
Other 1.5%
Nonproperty tax items 21.1%
Charges for services 24.9%
Property taxes 37.5%
Operating grants & contributions 11.9%


2010 Revenues - Governmental Activities
Capital grants & contributions 0.5%
Other 1.2%
Nonproperty tax items 19.8%
Charges for services 25.6%
Property taxes 39.1%
Operating grants & contributions 13.8%


2011 Expenses - Governmental Activities
General government support 5.3%
Interest 2.6%
Home and community 23.3%
Culture and recreation 6.4%
Economic assistance 0.5%
Transportation 11.1%
Public safety 50.8%


2010 Expenses - Governmental Activities
General government support 8.3%
Interest 3.3%
Home and community 24.0%
Culture and recreation 6.9%
Economic assistance 1.6%
Transportation 8.8%
Public safety 47.1%

THE CITY'S FUNDS

As the City completed the year, its Governmental Funds, as presented in the balance sheet on page 15, reported a combined fund balance of $8,001,590 which is $1,301,413 above last year's total of $6,700,177. Figure 7 shows the fund balances at year end for the City's major funds.

Figure 7
Governmental Funds
Fund Balance at Year End

	2011	2010	Percent Change 2011 - 2010
Major funds:			
General fund	$ 3,174,577	$ 1,787,158	77.6%
Special revenue funds -			
Sewer fund	1,939,263	1,386,571	39.9%
Special grant fund	970,484	842,220	15.2%
Water fund	772,068	761,735	1.4%
Capital projects fund	1,013,419	1,811,311	-44.1%
Total nonmajor funds	131,779	111,182	18.5%
Total governmental funds	$ 8,001,590	$ 6,700,177	19.4%

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

One significant budget variance was in nonproperty taxes, which showed a favorable variance of $655,701. This was mainly due to an unexpected rise in sales tax due to change in general economic conditions. State sources showed an unfavorable variance of $279,197 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 $1,101,404. The most significant budget variances were expenditures in employee benefits and public safety at $511,392 and $265,127, respectively, below the final budgeted amounts. Employee benefits and public safety expenditures were lower than budgeted due to employee retirements and cost containment efforts.

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES

Capital Assets

At the end of December 31, 2011, the City had $27,424,034, net of accumulated depreciation of $20,785,411, invested in a broad range of capital assets, including buildings, machinery and equipment, and roads and bridges. This amount represents a net increase of $368,210 over 2010. The increase in net capital assets is comprised of additions of $1,973,304, depreciation expense of $1,498,433, and a loss on disposals of $106,661.

Figure 8
Capital Assets, at Historical Cost, net

	Governmental Activities		Percent Change 2011 - 2010
	2011	2010	
Land	$ 1,487,500	$ 1,487,500	0%
Buildings and improvements, net	13,582,325	13,909,660	-2.4%
Machinery and equipment, net	6,258,302	5,608,820	11.6%
Infrastructure, net	6,095,907	6,049,844	.8%
Total	$ 27,424,034	$ 27,055,824	1.4%

Debt Administration

Debt (notes and bonds) is considered a liability of Governmental Activities, decreased by $1,745,142, bringing total debt outstanding to $15,298,667 as of December 31, 2011, as shown in Figure 9. Of the amount of bonds outstanding, $11,140,000 is subject to the constitutional debt limit and represented 34% 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 2011 - 2010
	2011	2010	
Capital notes	$ 33,667	$ 38,809	-13.2%
Serial bonds	15,265,000	17,005,000	-10.2%
Total	$ 15,298,667	$ 17,043,809	-10.2%

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)

Noncurrent Liabilities

In 2011, the City's OPEB liability increased $2,881,349 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 obligations for (OPEB) as they are incurred. In the case of the City, this obligation consists of health benefits promised to its current and future retirees. Based on a study of the City's numerous benefit packages and the effected population, actuaries have determined the value of the benefits earned in prior years, as well as the value earned during 2011.

The City's annual OPEB cost is calculated based on the annual actuarially determined required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of thirty years. The City's ARC for the year ended December 31, 2011, was calculated to be $4,753,312 compared to $4,510,571 at December 31, 2010. The City contributed $1,721,496 on behalf of its retirees in 2011, resulting in a noncurrent liability of $10,408,741 at December 31, 2011.

Additionally, the City had a liability of $5,107,581 for compensated absences as of December 31, 2011. The value of the earned and unused portion of the noncurrent liability for compensated absences at December 31, 2010 was $4,798,375.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the December 31, 2012 General Fund budget are $18,203,460, an increase of $967,855, or 5.6% more than the original December 31, 2011 budget of $17,235,605. Nonetheless, for the second consecutive year there was not an increase in the tax rate.

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

- The City's adoption of the In Rem Foreclosure process to enforce the payment of delinquent taxes continues to have a positive impact on overall tax collections.

- Sales tax revenue surpassed the 2011 budgeted revenue of $4.2 million by over $600,000 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. The first step was contracting with a new broker in early 2010, a move that paid off in 2011. For the first time in over a decade, in the City realized a reduction in the cost of Health Insurance by opting for a Contingent Premium Plan.

- After the 2011 training camp was canceled due to the ongoing dispute between the NFL owners and players, the City is set to welcome the Jets back for the 2012 summer training camp at S.U.N.Y. Cortland. With the 2010 camp surpassing the economic activity generated from the 2009 camp, 2012 is expected to draw even more spectators with the Jets' acquisition of quarterback Tim Tebow. Team officials have pledged to return in 2013, fulfilling the terms of their agreement with the College.

- Along the busy Route 81 corridor, a new Holiday Inn Express opened in the summer of 2011. In nearby Cortlandville, a new Lowe's opened in 2011 at the former Walmart location vacated when the new Super Walmart opened in 2010.

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

The City's economy has transitioned from a manufacturing employment base to one supported by a mix of government, higher education, and manufacturing. The City's economy stabilized in 2011 after experiencing several years of job losses due to the recession. Unemployment rate exceeded 10.5% in 2009, and has since moderated but remains above both the state and national level. For December 2012, the City recorded an unemployment rate of 8.6% compared to state and national rate of 8.0% and 8.5% respectfully. The unemployment rate in 2012 is expected to continue to stay above the state average.

Declining populations trends experienced during the past decade appears to have reversed. The 2010 census sets the City's population at 19,204, an increase of 464 from 2000. This increase will be reflected in revenues from state aid programs based on population such as the Aid to Municipalities funding.

Wealth indices, including market value per capital of $27,300 are below the national and state benchmarks but consistent with the Central New York region. The taxable value of property has been stable with valuations increasing in each of the last ten years. The tax base, which is nearly 75% residential benefits from relatively stable housing sector which did not experience the price fluctuations over the last six years seen in other parts of the nation. The City's per capital property tax is $425 compared to the state average for cities, excluding New York City, of $411. The City's 2012 budget property tax revenues will not be predicated upon an increase in the City's current tax rate. Property taxes are projected to comprise approximately 45% of the City's projected revenue base for 2012.

As noted earlier, the City benefited in 2011 from an increase in sales tax revenue. The City's 2012 budget will reflect a tempering of that growth. Recognizing the volatility of sales tax revenue the projected Sales tax revenue in 2012 will reflect a 2.5% growth.

Total General Fund expenditures are projected to increase by 2% in 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CORTLAND, NEW YORK

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents - unrestricted	$ 8,128,353
Cash and cash equivalents - restricted	524,116
Other receivables, net	1,502,268
Loans receivable	2,819,805
Due from Federal and State governments	1,489,678
Taxes receivable, net	2,128,433
Due from other funds, net	139,642
Capital assets, net	27,424,034
Total assets	44,156,329
LIABILITIES	
Accounts payable	1,941,536
Accrued liabilities	1,190,901
Bond anticipation note payable	900,000
Long-term liabilities -	
Due within one year	3,097,165
Due in more than one year	27,717,824
Total liabilities	34,847,426
NET ASSETS	
Invested in capital assets, net of related debt	11,111,948
Restricted	3,522,517
Unrestricted	(5,325,562)
Total net assets	$ 9,308,903

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	$ 1,314,601	$ 511,667	$ 2,205,696	$ -	$ 1,402,762
Public safety	12,662,344	95,024	46,096	804,506	(11,716,718)
Transportation	2,769,938	105,892	230,123	-	(2,433,923)
Economic assistance and opportunity	115,356	-	-	-	(115,356)
Culture and recreation	1,589,384	160,378	33,466	-	(1,395,540)
Home and community services	5,784,136	5,362,018	463,320	-	41,202
Interest on long-term debt	637,241	-	-	-	(637,241)
Total governmental activities	$ 24,873,000	$ 6,234,979	$ 2,978,701	$ 804,506	(14,854,814)

GENERAL REVENUES:	
Real property taxes and real property tax items	9,393,050
Nonproperty tax items	5,290,701
Use of money and property	61,865
Miscellaneous	308,207
Total general revenues	15,053,823
Change in net assets	199,009
Net assets - beginning of year	9,109,894
Net assets - end of year	$ 9,308,903

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
ASSETS							
Cash and cash equivalents - unrestricted	$ 4,289,737	$ 862,108	$ 828,367	$ 164,747	$ 1,851,615	$ 131,779	$ 8,128,353
Cash and cash equivalents - restricted	-	318,204	108,691	97,221	-	-	524,116
Due from Federal and State governments	1,427,392	-	62,286	-	-	-	1,489,678
Taxes receivable, net	2,128,433	-	-	-	-	-	2,128,433
Other receivables, net	119,506	794,586	-	588,176	-	-	1,502,268
Loans receivable	-	-	2,819,805	-	-	-	2,819,805
Due from other funds	321,372	66,750	-	-	63,211	-	451,333
Total assets	$ 8,286,440	$ 2,041,648	$ 3,819,149	$ 850,144	$ 1,914,826	$ 131,779	$ 17,043,986
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	$ 1,912,538	$ 138	$ 28,860	$ -	$ -	$ -	$ 1,941,536
Accrued liabilities	1,061,697	-	-	-	-	-	1,061,697
Due to other funds	129,961	102,247	-	78,076	1,407	-	311,691
Bond anticipation note payable	-	-	-	-	900,000	-	900,000
Deferred revenues	2,007,667	-	2,819,805	-	-	-	4,827,472
Total liabilities	5,111,863	102,385	2,848,665	78,076	901,407	-	9,042,396
FUND BALANCES:							
Restricted	2,998,401	318,204	108,691	97,221	-	-	3,522,517
Committed	93,088	8,200	-	-	-	-	101,288
Assigned	-	1,612,859	861,793	674,847	1,013,419	131,779	4,294,697
Unassigned	83,088	-	-	-	-	-	83,088
Total fund balances	3,174,577	1,939,263	970,484	772,068	1,013,419	131,779	8,001,590
Total liabilities and fund balances	$ 8,286,440	$ 2,041,648	$ 3,819,149	$ 850,144	$ 1,914,826	$ 131,779	$ 17,043,986

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, 2011

Total fund balance - governmental funds		$ 8,001,590
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	$ 48,209,445	
Accumulated depreciation	(20,785,411)	
		27,424,034
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.		4,827,472
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.		(129,204)
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	$ (15,265,000)	
Compensated absences	(5,107,581)	
Other postemployment benefits	(10,408,741)	
Notes payable	(33,667)	
		(30,814,989)
Total net assets of governmental activities		$ 9,308,903

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, 2011

	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
REVENUES:							
Real property taxes and tax items	$ 8,260,430	$ 1,194,064	$ -	$ -	$ -	$ -	$ 9,454,494
Nonproperty tax items	5,290,701	-	-	-	-	-	5,290,701
Departmental income	649,095	2,466,394	794,471	1,616,037	-	-	5,525,997
Intergovernmental charges	249,851	-	-	1,271	-	-	251,122
Use of money and property	48,802	1,482	2,984	8,597	-	-	61,865
Licenses and permits	121,288	-	-	45	-	-	121,333
Fines and forfeitures	336,177	-	-	-	-	-	336,177
Sale of property and compensation for loss	32,138	8,554	-	48,267	-	-	88,959
Miscellaneous	42,420	1,911	-	63,659	46,724	64,534	219,248
State aid	2,276,469	33,000	-	-	230,123	-	2,539,592
Federal aid	806,367	-	430,320	-	6,928	-	1,243,615
Total revenues	18,113,738	3,705,405	1,227,775	1,737,876	283,775	64,534	25,133,103
EXPENDITURES:							
General governmental support	1,156,535	34,800	-	13,840	18,246	1,865	1,225,286
Public safety	7,391,325	-	-	-	353,936	1,217	7,746,478
Transportation	1,230,534	-	-	-	654,267	-	1,884,801
Economic assistance and opportunity	-	-	115,356	-	-	-	115,356
Culture and recreation	924,069	-	-	-	-	40,855	964,924
Home and community services	602,602	1,481,829	984,155	886,736	118,429	-	4,073,751
Employee benefits	4,779,179	293,500	-	330,139	-	-	5,402,818
Debt service -							
Principal	666,360	853,851	-	224,931	-	-	1,745,142
Interest	269,755	300,903	-	102,476	-	-	673,134
Total expenditures	17,020,359	2,964,883	1,099,511	1,558,122	1,144,878	43,937	23,831,690
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,093,379	740,522	128,264	179,754	(861,103)	20,597	1,301,413
OTHER FINANCING SOURCES (USES):							
Operating transfers - in	357,251	-	-	-	63,211	-	420,462
Operating transfers - out	(63,211)	(187,830)	-	(169,421)	-	-	(420,462)
Total other financing sources and uses	294,040	(187,830)	-	(169,421)	63,211	-	-
CHANGE IN FUND BALANCE	1,387,419	552,692	128,264	10,333	(797,892)	20,597	1,301,413
FUND BALANCE - beginning of year	1,787,158	1,386,571	842,220	761,735	1,811,311	111,182	6,700,177
FUND BALANCE - end of year	$ 3,174,577	$ 1,939,263	$ 970,484	$ 772,068	$ 1,013,419	$ 131,779	$ 8,001,590

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, 2011

Net change in fund balances - governmental funds		$ 1,301,413
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	$ 1,973,304	
Depreciation	(1,498,433)	
		474,871
Deferred tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements.		(61,094)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,740,000
Losses on disposal of assets are reported in the statement of activities, but are not included in the governmental funds.		(106,661)
Some expenses reported in the statement of activities do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.		
Payments on capital lease obligation	$ 5,142	
Change in accrued interest payable	35,893	
Compensated absences	(309,206)	
Other post employment benefits	(2,881,349)	(3,149,520)
Change in net assets of governmental activities		$ 199,009

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2011

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 202,430
Total assets	$ 202,430
LIABILITIES	
Due to other funds	$ 139,642
Agency liabilities	62,788
Total liabilities	$ 202,430

The accompanying notes are an integral part of these statements.

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, 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 levy year.

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

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

F. Receivables

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

Loans receivable are carried at unpaid principal balances. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The City reviews outstanding loans receivable for collectability and records an allowance for uncollectible accounts based on that review. When all collection efforts have been exhausted, the account is written-off as uncollectible. At December 31, 2011, management considered all amounts fully collectible and, accordingly, no reserve had been established.

G. Cash and Cash Equivalents

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

H. Capital Assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Insurance

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

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 owed 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. 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

For the year ended December 31, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balances**
  These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

- **Restricted Fund Balances**
  These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

- **Committed Fund Balances**
  These are amounts that can be used only for specific purposes determined by a formal action of the Common Council prior to year-end. The Common Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Common Council.

- **Assigned Fund Balances**
  These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Assignments of fund balance may be established, modified, or rescinded only through ordinances or resolutions approved by the Common Council.

- **Unassigned Fund Balances**
  These are all other spendable amounts.

The City's policy is to maintain an unassigned general fund balance of between 5 to 10% of annual budgeted operating expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Restricted Resources

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

O. Interfund Activity

Interfund activity is reported as 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 and commissions or, where no board or commission exists, the persons appointed as administrative heads of the units or authorized agencies of the City government, shall submit to the Mayor their budget for the ensuing fiscal year. In the event a budget is not submitted, the Mayor shall direct the Director of Finance and Administration to prepare one. The Mayor and the Director of Finance and Administration then review the submitted budgets.

2) By October 15th, the Mayor shall submit the tentative City budget to the Common Council and file it with the City Clerk. Upon filing the tentative City budget, a notice shall be placed in the official newspapers of the City.

3) By November 15th, the Mayor shall approve 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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

5) After the public hearing, by December 31st, the Common Council shall adopt the final City budget.

6) All subsequent modifications of the budget must be approved by the Common Council.

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

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

General Fund	
GAAP basis fund balance at December 31, 2011	$ 3,174,577
Less: Outstanding encumbrances	(93,088)
Budgetary basis fund balance at December 31, 2011	$ 3,081,489
Sewer Fund	
GAAP basis fund balance at December 31, 2011	$ 1,939,263
Less: Outstanding encumbrances	(8,200)
Budgetary basis fund balance at December 31, 2011	$ 1,931,063

There were no adjustments to fund balance required for the water fund to reconcile current GAAP fund balance to the budgeting basis fund balance.

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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

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

Primary Government, including Fiduciary Funds
Total deposits of cash and cash equivalents are as follows for the years ended December 31, 2011:

	Carrying Amount	Bank Balance
Demand deposits	$ 958,825	$ 1,907,433
Time deposits	7,896,074	7,896,375
Total cash and investments	$ 8,854,899	$ 9,803,808
Insured cash - FDIC		$ 1,281,695
Uninsured - collateralized with securities held by pledging financial institution		12,661,280
Total insured and collateralized cash and cash equivalents		$ 13,942,975

4. RECEIVABLES

Receivables at December 31, 2011 are as follows:

General Fund:	
Taxes receivable, net	$ 2,128,433
Due from federal and state governments	1,427,392
Other receivables, net	119,506
Total general fund	3,675,331
Special Revenue Funds:	
Sewer fund:	
Sewer rents receivable	794,586
Water Fund:	
Water rents receivable	588,176
Special Grant Fund:	
Loans receivable	2,819,805
Due from federal and state governments	62,286
Total special grant fund	2,882,091
Total receivables - governmental activities	$ 7,940,184

5. PROPERTY TAXES

At December 31, 2011, the gross real property tax receivables of $2,178,433 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 $1,988,961 in the fund statements and represents an estimate of the tax liens which will not be collected within the first sixty days of the subsequent year.

The 2011 real property tax levy for general City purposes totaled $7,972,783. 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 $2,437,607 totaled $5,535,176. The constitutional tax limit of the City for the fiscal year ended December 31, 2011 was $10,276,510, leaving a margin of $4,741,334.

6. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2011 follows:

	Balance at 12/31/10	Transfers	Additions	Deletions	Balance at 12/31/11
Governmental Activities					
Non-depreciable capital assets:					
Land	$ 1,487,500	$ -	$ -	$ -	$ 1,487,500
Total non-depreciable capital assets	1,487,500	-	-	-	1,487,500
Depreciable capital assets:					
Building and improvements	19,434,444	-	63,070	-	19,497,514
Machinery and equipment	18,059,876	-	1,383,181	(331,812)	19,111,245
Infrastructure	7,586,133	-	527,053	-	8,113,186
Total depreciable capital assets	45,080,453	-	1,973,304	(331,812)	46,721,945
Less accumulated depreciation:					
Building and improvements	(5,524,784)	-	(390,405)	-	(5,915,189)
Machinery and equipment	(12,451,056)	-	(627,038)	225,151	(12,852,943)
Infrastructure	(1,536,289)	-	(480,990)	-	(2,017,279)
Total accumulated depreciation	(19,512,129)	-	(1,498,433)	225,151	(20,785,411)
Total depreciable capital assets, net	25,568,324	-	474,871	(106,661)	25,936,534
Capital assets, net	$ 27,055,824	$ -	$ 474,871	$ (106,661)	$ 27,424,034

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

Governmental activities:

Home and community service	$ 629,342
Transportation	479,499
Public safety	254,734
General government	89,906
Culture and recreation	44,952
Total depreciation expense	$ 1,498,433

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 for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSERS contribute 3.5% throughout their active membership. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund.

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

Year	ERS	PFRS
2011	$ 446,135	$ 969,461
2010	$ 373,991	$ 839,238
2009	$ 202,794	$ 731,237

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 2012 would be based on the pension value as of March 31, 2011).

- 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.

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 Common Council. The 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, 2011, the City contributed $1,721,496 to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit. The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan. There were approximately 135 participants in the City's Retirement Plan for the year ended December 31, 2011.

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

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Normal cost	$ 1,604,158
Amortization of UAAL	3,149,154
Total annual required contribution	4,753,312
Interest on net OPEB obligation	318,732
Adjustment to annual required contribution	(469,199)
Annual OPEB cost	4,602,845
Contributions made	(1,721,496)
Increase in net OPEB obligation	2,881,349
NET OPEB obligation - January 1, 2011	7,527,392
NET OPEB obligation - December 31, 2011	$ 10,408,741

Trend Information

The following table provides trend information for the Retirement Plan:

Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percent Contributed	Net OPEB Obligation
2011	$4,602,845	$1,721,496	37.4%	$10,408,741
2010	$4,420,237	$1,614,652	36.5%	$ 7,527,392
2009	$3,693,168	$1,376,762	37.3%	$ 4,721,807

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 Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2011	12/31/11	$ -	$ 51,424,389	$ 51,424,389	0.0%	$ 8,952,405	574.4%
1/1/2010	12/31/10	$ -	$ 49,457,817	$ 49,457,817	0.0%	$ 8,418,532	587.5%
1/1/2009	12/31/09	$ -	$ 41,758,966	$ 41,758,966	0.0%	$ 9,248,297	451.5%

8. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2011 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.

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

9. SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. The City issued one Bond Anticipation Note (BAN) in order to finance the purchase of two fire trucks. This BAN is recorded as a liability in the Capital Projects Fund.

The following is a summary of changes in short-term debt for the year ended December 31, 2011:

Balance, January 1, 2011	$ -
Increases	900,000
Decreases	-
Balance, December 31, 2011	$ 900,000

The following shows the maturity of the BANs:

Purpose	Original Issue Date	Interest Rate	Amount Outstanding 12/31/11	Final Maturity
Purchase two fire trucks	2011	1.32%	$ 900,000	1/2012

10. LONG-TERM DEBT

Constitutional Debt Limit

At December 31, 2011, the total outstanding indebtedness of the City aggregated to $15,298,667. Of this amount, $11,140,000 was subject to the City's constitutional debt limit, and represented approximately 34% of its debt limit.

Serial Bonds

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

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

Description	Outstanding 12/31/10	Additions	Deletions	Outstanding 12/31/11	Due Within One Year
Bonds	$ 17,005,000	$ -	$ (1,740,000)	$ 15,265,000	$ 1,815,000
Capital notes	38,809	-	(5,142)	33,667	5,270
Other postemployment benefits	7,527,392	4,602,845	(1,721,496)	10,408,741	-
Compensated absences	4,798,375	309,206	-	5,107,581	1,276,895
Total	$ 29,369,576	$ 4,912,051	$ (3,466,638)	$ 30,814,989	$ 3,097,165

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

For the year ended December 31, 2011, the City recognized interest expense of $673,134 on long-term debt in the Governmental Funds. Interest paid on Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Interest expense of Governmental Activities is calculated as follows:

Interest expenditure - Governmental funds	$ 673,134
Add: Interest accrued at December 31, 2011	129,204
Less: Interest accrued at December 31, 2010	(165,097)
Total interest expense - governmental activities	$ 637,241

10. LONG-TERM DEBT (Continued)

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

Bonds Payable	Issue Date	Maturity	Interest	Final Balance	Amount Due Within One Year
Public improvement	6/1993	6/2013	4.75%	$ 50,000	$ 25,000
Wastewater reconstruction	11/1994	11/2015	4.1%-6.9%	2,760,000	665,000
Public improvement	5/2000	5/2013	5.7%	285,000	140,000
General Purpose	1/2002	1/2014	4.25%-4.5%	1,210,000	385,000
Public improvement	6/2005	6/2021	3.85%-3.9%	2,410,000	200,000
Public improvement	6/2006	6/2031	4.125%-4.25%	3,455,000	110,000
Refunding of 1996 Public Imp.	3/2008	3/2021	3.25%-4.375%	1,365,000	130,000
Public improvement	2/2009	2/2027	4.5%-4.875%	3,730,000	160,000
Total				$ 15,265,000	$ 1,815,000

The following table summarizes the City's future debt service requirements as of December 31, 2011 (interest expenditures do not include subsidy amounts that may be received from New York State):

	Bonds		Capital Notes	
Years Ending December 31,	Principal	Interest	Principal	Interest
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	710,000	346,795	5,817	295
2017 – 2021	3,860,000	1,261,931	5,965	147
2022 – 2026	2,345,000	597,919	-	-
2027 – 2031	1,495,000	136,760	-	-
Total	$ 15,265,000	$ 4,465,990	$ 33,667	$ 3,005

11. FUND BALANCES

As of December 31, 2011, fund balances are composed of the following:

	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Nonmajor Funds
Restricted -						
Law	$ 2,998,401	$ 318,204	$ 108,691	$ 97,221	$ -	$ -
Committed -						
Outstanding encumbrances	93,088	8,200	-	-	-	-
Assigned -						
Other spendable amounts	-	1,612,859	861,793	674,847	1,013,419	131,779
Unassigned	83,088	-	-	-	-	-
Total	$ 3,174,577	$ 1,939,263	$ 970,484	$ 772,068	$ 1,013,419	$ 131,779

12. 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, 2011 were as follows:

Fund	Interfund Receivables	Interfund Payables	Interfund Revenue	Interfund Expense
General fund	$ 321,372	$ 129,961	$ 357,251	$ 63,211
Water fund	-	78,076	-	169,421
Sewer fund	66,750	102,247	-	187,830
Agency fund	-	139,642	-	-
Capital projects fund	63,211	1,407	63,211	-
Total	$ 451,333	$ 451,333	$ 420,462	$ 420,462

13. PUBLIC ENTITY RISK POOL

Risk Financing

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

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

During the year ended December 31, 2011, the City incurred premiums or contribution expenditures of approximately $188,000.

14. COMMITMENTS AND CONTINGENCIES

General Information

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

14. COMMITMENTS AND CONTINGENCIES (Continued)

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

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

Concentrations
The City has agreements with the full-time members of its employees' unions for firefighters and policemen which expire on December 31, 2012. Together, these unions represent approximately 23% of the City's workforce.

15. SUBSEQUENT EVENT

On January 27, 2012, the City issued a $425,000 Public Improvement Serial Bond which matures on May 15, 2022 which was used to pay off the $900,000 BAN.

16. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA).* This standard provides guidance on accounting and reporting for public-private or public-public partnerships. The City is required to adopt the provisions of Statement No. 60 for the year ending December 31, 2012. The City's management has not yet assessed the impact of this statement on its future financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.* This standard modifies requirements for inclusion of component units in the City's financial statements. This standard provides additional guidance on blending component units. The City is required to adopt the provisions of Statement No. 61 for the year ending December 31, 2013. The City's management has not yet assessed the impact of this statement on its future financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This standard incorporates certain accounting and financial reporting guidance from the Financial Accounting Standards Board (FASB) Statements and Interpretations, the Accounting Principles Board Opinions, and the Accounting Research Bulletins into GASB's authoritative literature. The City is required to adopt the provisions of Statement No. 62 for the year ending December 31, 2012. The City's management has not yet assessed the impact of this statement on its future financial statements.

16. IMPACT OF FUTURE GASB PRONOUNCEMENTS (Continued)

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The City is required to adopt the provisions of Statement No. 63 for the year ending December 31, 2012. The City's management has not yet assessed the impact of this statement on its future financial statements.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*. This standard clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The City is required to adopt the provisions of Statement No. 64 for the year ending December 31, 2012. The City's management has not yet assessed the impact of this statement on its future financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard establishes accounting and financial reporting standards that reclassify, as deferred resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The City is required to adopt the provisions of Statement No. 65 for the year ending December 31, 2013. The City's management has not yet assessed the impact of this statement on its future financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This standard improves accounting and financial reporting by clarifying guidance regarding risk financing, operating lease payments, and accounting for loans. The City is required to adopt the provisions of Statement No. 66 for the year ending December 31, 2013. 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, 2011

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	$ 8,179,342	$ 8,179,342	$ 8,260,430	$ 81,088
Nonproperty tax items	4,635,000	4,635,000	5,290,701	655,701
Departmental income	784,900	784,900	649,095	(135,805)
Intergovernmental charges	237,000	237,000	249,851	12,851
Use of money and property	56,672	56,672	48,802	(7,870)
Licenses and permits	113,750	113,750	121,288	7,538
Fines and forfeitures	150,750	150,750	336,177	185,427
Sale of property and compensation for loss	23,000	47,788	32,138	(15,650)
Miscellaneous	5,000	35,407	42,420	7,013
State aid	2,518,359	2,555,666	2,276,469	(279,197)
Federal aid	-	806,367	806,367	-
Total revenues	16,703,773	17,602,642	18,113,738	511,096
EXPENDITURES:				
General governmental support	1,303,581	1,282,719	1,174,761	107,958
Public safety	6,740,709	7,731,314	7,466,187	265,127
Transportation	1,158,073	1,307,710	1,230,534	77,176
Culture and recreation	1,012,603	1,047,876	924,069	123,807
Home and community services	631,270	618,546	602,602	15,944
Employee Benefits	5,224,254	5,290,571	4,779,179	511,392
Debt service -				
Principal	666,360	666,360	666,360	-
Interest	269,755	269,755	269,755	-
Total expenditures	17,006,605	18,214,851	17,113,447	1,101,404
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(302,832)	(612,209)	1,000,291	1,612,500
OTHER FINANCING SOURCES:				
Operating transfers - in	444,542	357,252	357,251	(1)
Operating transfers - out	(229,000)	(164,792)	(63,211)	101,581
Total other financing sources	215,542	192,460	294,040	101,580
CHANGE IN FUND BALANCE	(87,290)	(419,749)	1,294,331	1,714,080
FUND BALANCE - beginning of year	1,787,158	1,787,158	1,787,158	-
FUND BALANCE - end of year	$ 1,699,868	$ 1,367,409	$ 3,081,489	$ 1,714,080

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, 2011

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	$ 1,174,085	$ 1,174,085	$ 1,194,064	$ 19,979
Departmental income	2,354,835	2,354,835	2,466,394	111,559
State aid	-	33,000	33,000	-
Sale of property and compensation for loss	-	-	8,554	8,554
Miscellaneous	-	-	1,911	1,911
Use of money and property	425	425	1,482	1,057
Total revenues	3,529,345	3,562,345	3,705,405	143,060
EXPENDITURES:				
General governmental support	125,000	122,992	34,800	88,192
Home and community services	1,722,780	1,757,788	1,490,029	267,759
Employee benefits	319,650	321,784	293,500	28,284
Debt service -				
Principal	853,851	853,851	853,851	-
Interest	320,234	318,100	300,903	17,197
Total expenditures	3,341,515	3,374,515	2,973,083	401,432
EXCESS OF REVENUES OVER EXPENDITURES	187,830	187,830	732,322	544,492
OTHER FINANCING USES:				
Operating transfers - out	-	-	(187,830)	(187,830)
Total other financing uses	-	-	(187,830)	(187,830)
CHANGE IN FUND BALANCE	187,830	187,830	544,492	356,662
FUND BALANCE - beginning of year	1,386,571	1,386,571	1,386,571	-
FUND BALANCE - end of year	$ 1,574,401	$ 1,574,401	$ 1,931,063	$ 356,662

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, 2011

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Departmental income	$ 1,664,842	$ 1,664,842	$ 1,616,037	$ (48,805)
Use of money and property	5,100	5,100	8,597	3,497
Licenses and permits	100	100	45	(55)
Intergovernmental charges	1,000	1,000	1,271	271
Sale of property and compensation for loss	1,500	1,500	48,267	46,767
Miscellaneous	11,500	11,500	63,659	52,159
Total revenues	1,684,042	1,684,042	1,737,876	53,834
EXPENDITURES:				
General governmental support	49,000	13,840	13,840	-
Home and community services	918,262	928,222	886,736	41,486
Employee benefits	339,050	364,250	330,139	34,111
Debt service				
Principal	224,931	224,931	224,931	-
Interest	102,476	102,476	102,476	-
Total expenditures	1,633,719	1,633,719	1,558,122	75,597
EXCESS OF REVENUES OVER EXPENDITURES	50,323	50,323	179,754	129,431
OTHER FINANCING SOURCES (USES):				
Operating transfers - in	119,099	-	-	-
Operating transfers - out	(169,422)	(169,422)	(169,421)	1
Total other financing sources (uses)	(50,323)	(169,422)	(169,421)	1
CHANGE IN FUND BALANCE	-	(119,099)	10,333	129,432
FUND BALANCE - beginning of year	761,735	761,735	761,735	-
FUND BALANCE - end of year	$ 761,735	$ 642,636	$ 772,068	$ 129,432

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

SECTION B

OMB CIRCULAR A-133

Bonadio & Co., LLP
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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*

August 7, 2012

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2012. 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
Management of the City is responsible for establishing and maintaining effective 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 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 previously.

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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 August 7, 2012.

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.

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

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

August 7, 2012

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, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2011.

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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.

Bonadio & Co., LLP

CITY OF CORTLAND, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	84,298
Passed through NYS Office of Community Renewal - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Program income	45,012
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285HR112-09	335,453
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	285ME691-10	94,867
			559,630
Passed through the NYS Division of Housing and Community Renewal - Home Investment Partnerships Program	14.239	20073053	72,759
Home Investment Partnerships Program	14.239	20093169	244,472
Home Investment Partnerships Program	14.239	20103269	183,043
			500,274
Total U.S. Department of Housing and Urban Development			1,059,904
U.S. Department of Justice:			
ARRA-Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	N/A	6,928
Total U.S. Department of Justice			6,928
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	**97.044**	**N/A**	**804,506**
Total U.S. Department of Homeland Security			804,506
Total Expenditures of Federal Awards			1,871,338

Note: Bold item denotes a major program.

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2011

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, 2011

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. No material weaknesses or significant deficiencies relating to the audit of the basic financial statements are 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 were no audit findings relative to major federal award programs for the City.

7. The program tested as a major program was:

   - CFDA No. 97.044 Assistance to Firefighters Grant

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

None.

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

None.

SECTION C

NEW YORK STATE SINGLE AUDIT

Bonadio & Co., LLP
Certified Public Accountants

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*

August 7, 2012

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, 2011. 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 of NYSCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance 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, 2011.

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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.

Bonadio & Co., LLP

CITY OF CORTLAND, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2011

Program Title	NYSDOT Contract/ Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program (CHIPS)	N/A	$ 230,124

CITY OF CORTLAND, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2011

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, 2011

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:

   - No material weaknesses were identified.

2. The independent 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.