CITY OF CORTLAND, NEW YORK

Financial Statements as of
and for the Year Ended
December 31, 2012
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

CITY OF CORTLAND, NEW YORK

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CITY OF CORTLAND, NEW YORK

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SECTION A

CITY OF CORTLAND, NEW YORK
BASIC FINANCIAL STATEMENTS

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

July 31, 2013

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Report on Required Supplementary Information
Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3-12 and budgetary comparison information on pages 39-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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, 2012. 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 $4,769,423 and is reported as net position. Unrestricted net position, the portion of net position which may be used to meet the government's ongoing obligations to citizens and creditors, was a deficit of $(13,331,452) at December 31, 2012.

- The City's annual required contribution (ARC) for other postemployment benefits (OPEB) for 2012 was $5,314,568 and the net annual OPEB cost was $5,104,718. The City paid $1,713,334 during the current fiscal year for retiree benefits and has a continuing liability in the Statement of Net Position of $13,800,125 for the remaining portion of the unfunded other postemployment benefit obligation.

- During the year, the City had expenses that exceeded revenues of $1,922,470, compared to last year, when the City had revenues that exceeded expenses of $199,009.

- General Fund revenues of $17,329,174, supplemented by transfers into the General Fund of $433,834, exceeded expenditures of $17,693,992 in 2012, which increased fund balance by $69,016 for the year ended December 31, 2012.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Position and the Statement of Activities and Change in Net Position 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

The analysis of the City as a whole begins with the Government-wide statements. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer the question of whether the City, 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 position and changes in them. One can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's streets, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities and Change in Net Position, 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 Position 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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $4,769,423 at the close of the most recent year. Compared to the prior year, this is a decrease of $4,539,480 or 48.8%.

THE CITY AS A WHOLE (Continued)

Current and other assets account for 36.2 percent of the City's total assets. At December this category amounted to $15,519,190 which decreased $1,213,105, or 7.2% from the prior year. A decrease of $1,522,035, 17.5%, in the City's cash aggregate position to $7,130,434 at December 31, 2012 from $8,652,853 at December 31, 2011 accounts for a significant portion of the decrease in total assets. The decrease in the City's cash position is attributed to the use of cash to decrease the accounts payables at year end by $1,705,433, or 87.8%, and bonded indebtedness at year-end by a net of $1,390,000, or 9.1%

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

Figure 1
Net Position

	Governmental Activities		Percent Change 2012 - 2011
	2012	2011	
Current and other assets	$ 15,519,190	$ 16,732,295	-7.2%
Capital assets, net	27,351,323	27,424,034	-0.3%
Total assets	42,870,513	44,156,329	-2.9%
Current and other non-debt liabilities	4,718,882	4,032,437	17.0%
Long-term debt - due in one year	3,360,074	3,097,165	8.5%
Long-term debt - due in more than one year	30,022,134	27,717,824	8.3%
Total liabilities	38,101,090	34,847,426	9.3%
Net investment in capital assets	13,447,926	11,111,948	21.0%
Restricted	4,652,949	3,522,517	32.1%
Unrestricted	(13,331,452)	(5,325,562)	-150.3%
Total net position	$ 4,769,423	$ 9,308,903	-48.8%

Total liabilities increased $3,253,664, or 9.3%, over the prior year. Although the City significantly reduced its accounts payable by $1,705,433 and current portion of long-term debt by $262,909, this was offset by a net increase of $3,391,384, or 32.2%, increase in its OPEB liabilities for health care obligations, and $571,105, or 11.2%, increase in compensated absences.

By far the largest portion of the City's net position, $13,447,926, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. The City's investment in capital assets increased $2,335,978, or 21.0% from the prior year. This increase is primary due to the City continuing strategy to pay down its outstanding debt and fund purchases of short-lived assets from operating revenue instead of incurring additional debt. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

THE CITY AS A WHOLE (Continued)

An additional portion of the City's net position, $4,652,949, represents resources that the City, through it Council enacted fund policy, have been committed or reserved for specific purposes and are therefore reported as restricted net position. The remaining balance is a deficit primary attributable to the City's unfunded actuarial liability for post-employment health care obligations and therefore should not be considered available to meet the City's ongoing obligations to citizens and creditors.

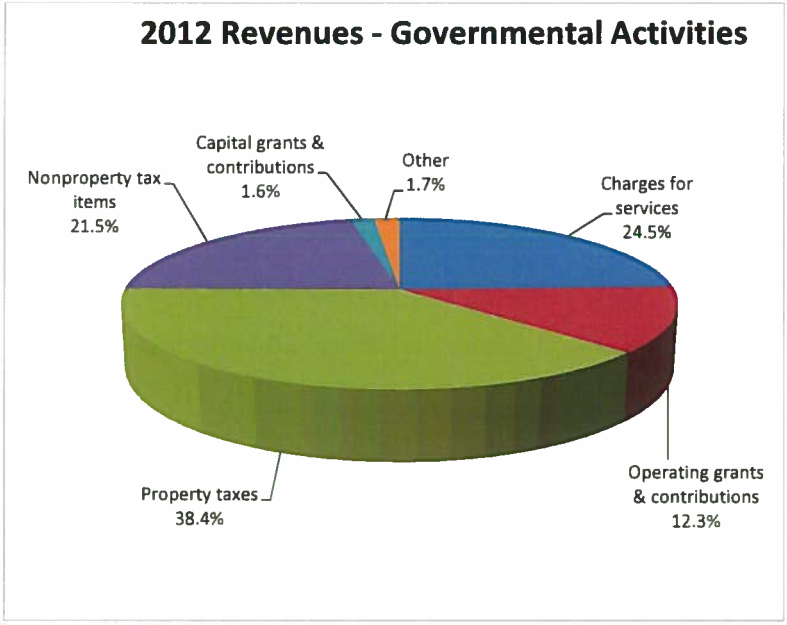
Figure 2 presents the results of the City's operating activities.

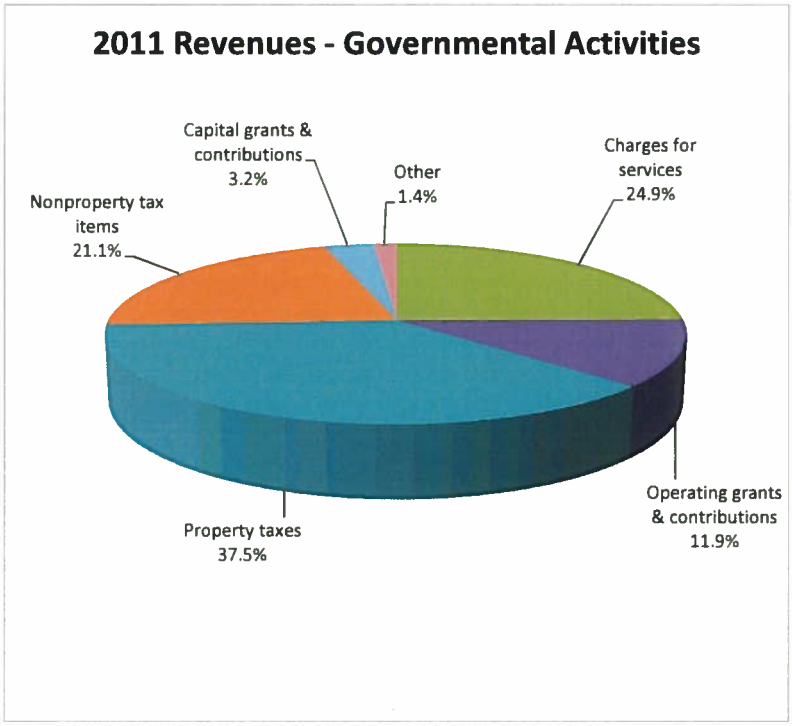
Figure 2
Changes in Net Position

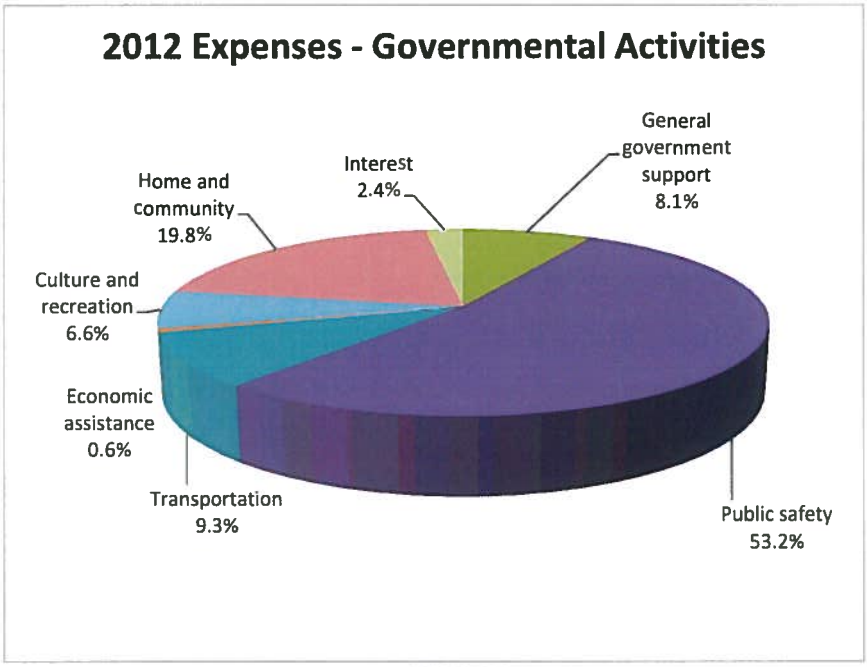
	Governmental Activities		Percent Change 2012 - 2011
	2012	2011	
REVENUES			
Program revenues:			
Charges for services	$ 6,094,368	$ 6,234,979	-2.3%
Operating grants	3,067,326	2,978,701	3.0%
Capital grants	396,407	804,506	-50.7%
General revenues:			
Property taxes and tax items	9,345,540	9,393,050	-0.5%
Nonproperty taxes	5,342,198	5,290,701	1.0%
Use of money and property	46,537	61,865	-25.8%
Other general revenues	392,278	308,207	27.3%
Total revenues	24,684,654	25,072,009	-1.5%
EXPENSES			
General government	2,169,583	1,314,601	65.0%
Public safety	14,143,295	12,662,344	11.7%
Transportation	2,472,351	2,769,938	-10.7%
Economic assistance and opportunity	158,099	115,356	37.1%
Culture and recreation	1,759,140	1,589,384	10.7%
Home and community services	5,275,255	5,784,136	-8.8%
Interest on long-term debt	629,401	637,241	-1.2%
Total expenses	26,607,124	24,873,000	7.0%
Excess (deficiency) of revenues over expenses	$ (1,922,470)	$ 199,009	-1,066.0%

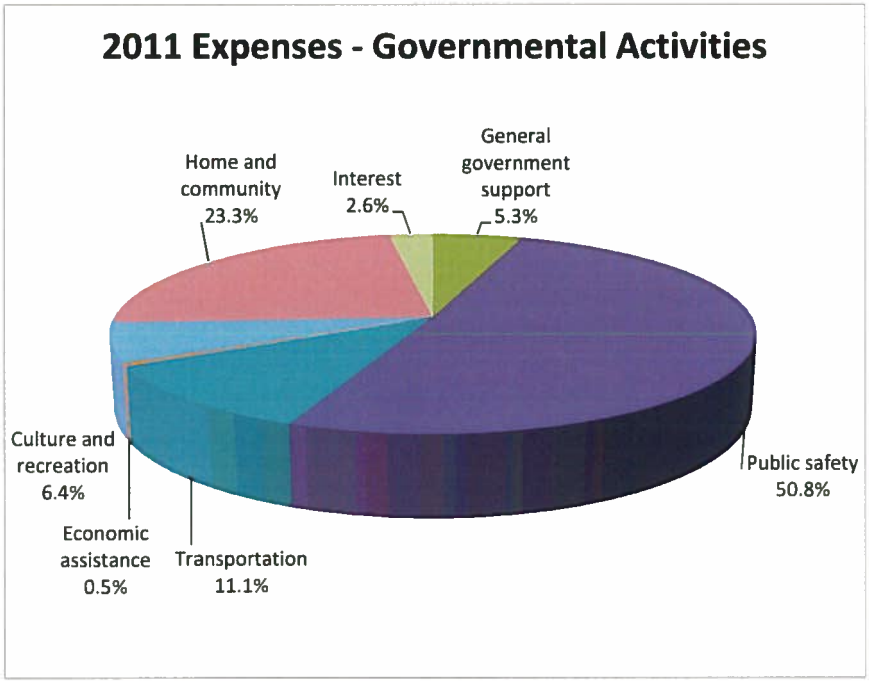
Revenues decreased by $387,355, or 1.5%, due primarily to a decrease of $408,099, or 50.7%, in capital grant funding. Expenses increased $1,734,124, or 7.0%, primarily due to increases in pension contributions and increasing health care costs for current and retired employees and the derivative effect that increase has of the annual net increase in the provision for the City's OPEB obligation for health care.

The information on the following pages presents a graphical picture of the major revenue and expense categories of the City's activities for 2012 and 2011.


2012 Revenues - Governmental Activities
Capital grants & contributions 1.6%
Other 1.7%
Nonproperty tax items 21.5%
Charges for services 24.5%
Operating grants & contributions 12.3%
Property taxes 38.4%


2011 Revenues - Governmental Activities
Capital grants & contributions 3.2%
Other 1.4%
Charges for services 24.9%
Nonproperty tax items 21.1%
Operating grants & contributions 11.9%
Property taxes 37.5%


2012 Expenses - Governmental Activities
General government support 8.1%
Interest 2.4%
Home and community 19.8%
Culture and recreation 6.6%
Economic assistance 0.6%
Transportation 9.3%
Public safety 53.2%


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

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 $8,539,348 which is $537,758 above last year's total of $8,001,590. Figure 7 shows the fund balances at year end for the City's major funds.

Figure 7
Governmental Funds
Fund Balance at Year End

	2012	2011	Percent Change 2012 - 2011
Major funds:			
General fund	$ 3,243,593	$ 3,174,577	2.2%
Special revenue funds -			
Sewer fund	2,375,357	1,939,263	22.5%
Special grant fund	1,166,350	970,484	20.2%
Water fund	877,293	772,068	13.6%
Capital projects fund	761,069	1,013,419	-24.9%
Total nonmajor funds	115,686	131,779	-12.2%
Total governmental funds	$ 8,539,348	$ 8,001,590	6.7%

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 $163,000. 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 $389,187 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 $831,181. The most significant budget variances were expenditures in general governmental support and public safety at $203,418 and $341,481, respectively, below the final budgeted amounts. General governmental support and public safety expenditures were lower than budgeted due to cost containment efforts.

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES

Capital Assets

At the end of December 31, 2012, the City had $27,351,323, net of accumulated depreciation of $21,893,605, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net decrease of $72,711 over 2011. The decrease in net capital assets is comprised of additions of $1,702,497, depreciation expense of $1,661,149, and a loss on disposals of $114,059.

Figure 8
Capital Assets, at Historical Cost, net

	Governmental Activities		Percent Change 2012 - 2011
	2012	2011	
Land	$ 1,487,500	$ 1,487,500	0%
Buildings and improvements, net	13,334,487	13,582,325	-1.8%
Machinery and equipment, net	6,598,865	6,258,302	5.4%
Infrastructure, net	5,930,471	6,095,907	-2.7%
Total	$ 27,351,323	$ 27,424,034	-0.3%

Debt Administration

Debt (notes and bonds), a liability in the Governmental Activities, decreased by $1,395,270, bringing the total debt outstanding to $13,903,397 as of December 31, 2012, as shown in Figure 9. Of the amount of bonds outstanding, $10,545,000 is subject to the constitutional debt limit and represented 32% of the City's statutory debt limit. The City's bond rating is currently A- from Standard & Poor's.

Figure 9
Outstanding Debt at Year End

	Governmental Activities		Percent Change 2012 - 2011
	2012	2011	
Capital notes	$ 28,397	$ 33,667	-9.1%
Serial bonds	13,875,000	15,265,000	-15.7%
Total	$ 13,903,397	$ 15,298,667	-9.1%

CAPITAL ASSETS, DEBT ADMINISTRATION AND NONCURRENT LIABILITIES (Continued)

Noncurrent Liabilities

In 2012, the City's OPEB liability increased $3,391,384 in accordance with Government Accounting Standards Board (GASB) Statement Number 45 recognition requirements. 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 through December 31, 2012.

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, 2012, was calculated to be $5,314,568 compared to $4,573,312 at December 31, 2011. The City contributed $1,713,334 on behalf of its retirees in 2012, resulting in a noncurrent liability of $13,800,125 at December 31, 2012.

Additionally, the City had a liability of $5,678,686 for compensated absences as of December 31, 2012. The value of the earned and unused portion of the noncurrent liability for compensated absences at December 31, 2011 was $5,107,581.

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.

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.

- Effective January 1, 2013, the City will join the Greater Tompkins County Health Insurance Consortium. In addition to realizing the cost benefit of being included in a larger insured base the City expects to benefit from premium rates based upon actual experience instead of community rated.

- Continued retail growth in the Route 281 corridor, improved vacancy in the downtown business district, and influx of stores in Riverview Plaza have contributed to modest growth in the sales tax base.

The City's economy has transitioned from a manufacturing employment base to one supported by a mix of government, higher education, service and manufacturing. The City's economy stabilized in 2011 after experiencing several years of job losses due the recession and years of general economic decline in Central New York. The unemployment rate exceeded 10.5% in 2009 and has since moderated but remains above both state and national levels. At December 31, 2012 the City's recorded unemployment rate was 9.10% compared to the state and national rates of 8.20% and 7.80% respectfully. The unemployment rate in 2013 is expected to stay above the state level.

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

Declining populations trends experienced during the past decade appear to have reversed. The 2010 census sets the City's population at 19,204 with the 2011 estimate being 19,261. The 2000 census population was 18,740.

Wealth indices, such as the per household medium income of $36,092 are below the national and state benchmarks but consistent with the Central New York region. The taxable value of property within the City has been stable with relatively little annual change. The tax base, which is approximately 75% residential, reflects a relatively stable housing sector which did not experience the price fluctuations over the last seven years seen in other parts of the nation. The City's per capita property tax is $416 compared to the state average for cities, excluding New York City, of $417. The City's 2013 budgeted property tax revenues will be based upon an increase of one half of one percent in the tax levy.

The City's 2013 projected sales tax revenues will reflect a 2.5% growth rate.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CORTLAND, NEW YORK

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents - unrestricted	$ 5,723,665
Cash and cash equivalents - restricted	1,406,769
Other receivables, net	1,457,438
Loans receivable	2,617,010
Due from Federal and State governments	1,468,394
Taxes receivable, net	2,596,530
Deposits with other governments	180,000
Due from other funds, net	69,384
Capital assets, net	27,351,323
Total assets	42,870,513
LIABILITIES	
Accounts payable	236,103
Accrued liabilities	1,640,679
Unearned revenue	2,842,100
Long-term liabilities -	
Due within one year	3,360,074
Due in more than one year	30,022,134
Total liabilities	38,101,090
NET POSITION	
Net investment in capital assets	13,447,926
Restricted	4,652,949
Unrestricted	(13,331,452)
Total net position	$ 4,769,423

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

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 Position
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	$ 2,169,583	$ 484,621	$ 2,245,795	$ -	$ 560,833
Public safety	14,143,295	64,195	294,280	396,407	(13,388,413)
Transportation	2,472,351	105,374	230,157	-	(2,136,820)
Economic assistance and opportunity	158,099	-	-	-	(158,099)
Culture and recreation	1,759,140	152,632	-	-	(1,606,508)
Home and community services	5,275,255	5,287,546	297,094	-	309,385
Interest on long-term debt	629,401	-	-	-	(629,401)
Total governmental activities	$ 26,607,124	$ 6,094,368	$ 3,067,326	$ 396,407	(17,049,023)

GENERAL REVENUES:	
Real property taxes and real property tax items	9,345,540
Nonproperty tax items	5,342,198
Use of money and property	46,537
Miscellaneous	392,278
Total general revenues	15,126,553
Change in net position before special item	(1,922,470)
Special item - change in accounting estimate	(2,617,010)
Change in net position after special item	(4,539,480)
Net position - beginning of year	9,308,903
Net position - end of year	$ 4,769,423

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Special Revenue Funds: Sewer Fund	Special Revenue Funds: Special Grant Fund	Special Revenue Funds: Water Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
ASSETS							
Cash and cash equivalents - unrestricted	$ 3,509,868	$ 138,241	$ 1,010,352	$ 241,867	$ 707,651	$ 115,686	$ 5,723,665
Cash and cash equivalents - restricted	-	1,210,683	113,284	82,802	-	-	1,406,769
Due from Federal and State governments	1,368,475	-	42,714	-	57,205	-	1,468,394
Taxes receivable, net	2,596,530	-	-	-	-	-	2,596,530
Other receivables, net	123,124	769,307	-	565,007	-	-	1,457,438
Loans receivable	-	-	2,617,010	-	-	-	2,617,010
Deposits with other governments	180,000	-	-	-	-	-	180,000
Due from other funds	107,740	300,000	-	-	-	-	407,740
Total assets	$ 7,885,737	$ 2,418,231	$ 3,783,360	$ 889,676	$ 764,856	$ 115,686	$ 15,857,546
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES							
LIABILITIES:							
Accounts payable	$ 236,103	$ -	$ -	$ -	$ -	$ -	$ 236,103
Accrued liabilities	1,471,997	20,688	-	-	-	-	1,492,685
Due to other funds	300,000	22,186	-	12,383	3,787	-	338,356
Unearned revenues	225,090	-	2,617,010	-	-	-	2,842,100
Total liabilities	2,233,190	42,874	2,617,010	12,383	3,787	-	4,909,244
DEFERRED INFLOWS:							
Unearned taxes	2,408,954	-	-	-	-	-	2,408,954
Total deferred inflows	2,408,954	-	-	-	-	-	2,408,954
FUND BALANCES:							
Restricted	3,065,285	1,503,143	-	84,521	-	-	4,652,949
Assigned	95,219	872,214	1,166,350	792,772	761,069	115,686	3,803,310
Unassigned	83,089	-	-	-	-	-	83,089
Total fund balances	3,243,593	2,375,357	1,166,350	877,293	761,069	115,686	8,539,348
Total liabilities, deferred inflows, and fund balances	$ 7,885,737	$ 2,418,231	$ 3,783,360	$ 889,676	$ 764,856	$ 115,686	$ 15,857,546

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total fund balance - governmental funds		$ 8,539,348
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.		
Cost of capital assets	$ 49,244,928	
Accumulated depreciation	(21,893,605)	
		27,351,323
Revenue related to the tax levy is recognized when earned in the statement of activities and change in net position, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end.		2,408,954
Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred.		(147,994)
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	$ (13,875,000)	
Compensated absences	(5,678,686)	
Other postemployment benefits	(13,800,125)	
Notes payable	(28,397)	
		(33,382,208)
Total net position of governmental activities		$ 4,769,423

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, 2012

		Special Revenue Funds					
	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Total Nonmajor Governmental Funds	Total
REVENUES:							
Real property taxes and tax items	$ 7,948,266	$ 1,198,782	$ -	$ -	$ -	$ -	$ 9,147,048
Nonproperty tax items	5,342,198	-	-	-	-	-	5,342,198
Departmental income	638,020	2,620,564	483,996	1,698,579	-	-	5,441,159
Intergovernmental charges	228,643	-	-	3,500	-	-	232,143
Use of money and property	39,479	1,500	1,632	3,843	-	83	46,537
Licenses and permits	129,535	-	-	30	-	-	129,565
Fines and forfeitures	291,501	-	-	-	-	-	291,501
Sale of property and compensation for loss	102,916	1,502	-	3,460	-	-	107,878
Miscellaneous	68,541	61	46,731	58,179	-	110,888	284,400
State aid	2,245,795	-	-	-	230,157	-	2,475,952
Federal aid	294,280	-	297,094	-	-	396,407	987,781
Total revenues	17,329,174	3,822,409	829,453	1,767,591	230,157	507,378	24,486,162
EXPENDITURES:							
General governmental support	1,189,789	33,690	-	12,176	43,929	17,653	1,297,237
Public safety	7,060,393	-	-	-	79,966	440,621	7,580,980
Transportation	1,297,561	-	-	-	278,655	-	1,576,216
Economic assistance and opportunity	-	-	142,897	-	-	15,202	158,099
Culture and recreation	922,651	-	-	-	146,482	49,995	1,119,128
Home and community services	525,808	1,639,113	490,690	767,417	358,475	-	3,781,503
Employee benefits	5,745,874	327,618	-	355,868	-	-	6,429,360
Debt service -							
Principal	705,376	879,718	-	235,176	-	-	1,820,270
Interest	246,540	270,469	-	93,602	-	-	610,611
Total expenditures	17,693,992	3,150,608	633,587	1,464,239	907,507	523,471	24,373,404
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(364,818)	671,801	195,866	303,352	(677,350)	(16,093)	112,758
OTHER FINANCING SOURCES (USES):							
Proceeds from issuance of bonds	-	-	-	-	425,000	-	425,000
Operating transfers - in	433,834	-	-	-	-	-	433,834
Operating transfers - out	-	(235,707)	-	(198,127)	-	-	(433,834)
Total other financing sources and uses	433,834	(235,707)	-	(198,127)	425,000	-	425,000
CHANGE IN FUND BALANCE	69,016	436,094	195,866	105,225	(252,350)	(16,093)	537,758
FUND BALANCE - beginning of year	3,174,577	1,939,263	970,484	772,068	1,013,419	131,779	8,001,590
FUND BALANCE - end of year	$ 3,243,593	$ 2,375,357	$ 1,166,350	$ 877,293	$ 761,069	$ 115,686	$ 8,539,348

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 AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - governmental funds		$ 537,758
Amounts reported for governmental activities in the statement of activities and change in net position are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. Also, depreciation expense is recorded in the statement of activities over the estimated useful lives of the assets, but not as a change in fund balance of the governmental funds as there is no cash outlay associated with the expense.		
Capital additions	$ 1,702,497	
Depreciation	(1,661,149)	
		41,348
Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements.		401,287
Repayment of principal on loans receivable is recorded on the modified accrual basis, but is not reported in the government-wide financial statements.		(202,795)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,815,000
Borrowing new bond principal is an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.		(425,000)
Losses on disposal of assets are reported in the statement of activities and change in net position, but are not included in the governmental funds.		(114,059)
Some expenses reported in the statement of activities and change in net position do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.		
Payments on note payable	$ 5,270	
Change in accrued interest payable	(18,790)	
Compensated absences	(571,105)	
Other post employment benefits	(3,391,384)	(3,976,009)
Change in net position of governmental activities		$ (1,922,470)

The accompanying notes are an integral part of these statements.

CITY OF CORTLAND, NEW YORK

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 96,110
Investments	139,804
Total assets	$ 235,914
LIABILITIES	
Due to other funds	$ 69,384
Agency liabilities	166,530
Total liabilities	$ 235,914

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.

The decision to include a potential component unit in the City's reporting entity is based on several criteria set forth by the GASB including legal standing, fiscal dependency, and financial accountability. A component unit is included in the City's reporting entity if it is both fiscally dependent on the City and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. Based on the application of these criteria, the City has determined there are no other organizations that meet criteria for inclusion in the reporting entity of the City.

1. Related Organizations

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

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

1. Government-Wide Financial Statements

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

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

The Statement of Activities and Change in Net Position 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 Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual Basis

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

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

D. Unearned Revenues

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

For the year ended December 31, 2012, the City changed the way it accounts for unearned revenue in the Special Grant Fund. This change is being applied prospectively, beginning January 1, 2012. The effect of this change in the current year is a decrease to net position of $2,617,010 and is reported as a special item in the Statement of Activities and Change in Net Position.

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, 2012, 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.

In 2012, the City joined the Greater Tompkins County Municipal Health Insurance Consortium (the Consortium) to provide affordable health insurance to its employees and eligible retirees, and prescription drug coverage to its members. The City invested $180,000 in the Consortium and this is reflected as deposits with other governments in the financial statements. The City pays annual premiums to the Consortium which are intended to cover the claims submitted by members. Each member of the Consortium is liable for their share of any additional assessments required for capitalization in future years.

J. Vacation, Sick Leave and Compensated Absences

City employees are granted vacation and sick leave and earn compensatory time in varying amounts in accordance with various negotiated contracts. In the event of retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. The expenditures for these 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 Position.

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 survivor's 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 position and displayed in three components:

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

2. Governmental Fund Financial Statements

Accounting principles generally accepted in the United States provide more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balances**
  These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The City currently does not have any nonspendable fund balance.

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

- **Committed Fund Balances**
  These are amounts whose use is constrained by limitations that the City imposes upon itself by Ordinance and that remains binding unless removed in the same manner. The City currently does not have any committed fund balance.

- **Assigned Fund Balances**
  These are amounts that do not meet the criteria to be classified as restricted or committed but that reflects the City's intended use of resources. Assignments of fund balance may be established, modified, or rescinded only through resolutions approved by the Common Council.

- **Unassigned Fund Balances**
  The unassigned fund balance is the residual classification for the General Fund. This classification represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

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, 2012	$ 3,243,593
Less: Outstanding encumbrances	(95,219)
Budgetary basis fund balance at December 31, 2012	$ 3,148,374

There were no adjustments to fund balance required for the sewer or water funds to reconcile current GAAP fund balance to the budget 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, 2012:

	Carrying Amount	Bank Balance
Demand deposits	$ 664,135	$ 1,224,103
Time deposits	6,702,213	8,700,294
Total cash and cash equivalents	$ 7,366,348	$ 9,924,397
Insured cash - FDIC		$ 1,724,102
Uninsured - collateralized with securities held by pledging financial institution		9,332,828
Total insured and collateralized cash and cash equivalents		$ 11,056,930

4. RECEIVABLES

Receivables for governmental funds at December 31, 2012 are as follows:

General Fund:	
Taxes receivable, net	$ 2,596,530
Due from federal and state governments	1,368,475
Other receivables, net	123,124
Total general fund	4,088,129
Capital Projects Fund:	
Due from federal and state governments	57,205
Total capital projects fund	57,205
Special Revenue Funds:	
Sewer fund:	
Sewer rents receivable	769,307
Water Fund:	
Water rents receivable	565,007
Special Grant Fund:	
Loans receivable	2,617,010
Due from federal and state governments	42,714
Total special grant fund	2,659,724
Total receivables - governmental funds	$ 8,139,372

5. PROPERTY TAXES

At December 31, 2012, gross real property tax receivables of $2,646,530 are offset by an allowance for uncollectible taxes of $50,000. The remaining portion of property tax receivables is partially offset by unearned tax revenue of $2,408,954 in the fund statements and represents an estimate of the tax liens which have not been collected within the first sixty days of the subsequent year.

The 2012 real property tax levy for general City purposes totaled $7,972,771. 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 $2,445,027 totaled $5,527,744. The constitutional tax limit of the City for the fiscal year ended December 31, 2012 was $10,490,637, leaving a margin of $4,962,893.

6. CAPITAL ASSETS

A summary of changes in capital assets at December 31, 2012 are as follows:

	Balance at 12/31/11	Transfers	Additions	Deletions	Balance at 12/31/12
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	19,497,514	-	145,720	-	19,643,234
Machinery and equipment	19,111,245	-	1,200,012	(667,014)	19,644,243
Infrastructure	8,113,186	-	356,765	-	8,469,951
Total depreciable capital assets	46,721,945	-	1,702,497	(667,014)	47,757,428
Less accumulated depreciation:					
Building and improvements	(5,915,189)	-	(393,558)	-	(6,308,747)
Machinery and equipment	(12,852,943)	-	(745,390)	552,955	(13,045,378)
Infrastructure	(2,017,279)	-	(522,201)	-	(2,539,480)
Total accumulated depreciation	(20,785,411)	-	(1,661,149)	552,955	(21,893,605)
Total depreciable capital assets, net	25,936,534	-	41,348	(114,059)	25,863,823
Capital assets, net	$ 27,424,034	$ -	$ 41,348	$ (114,059)	$ 27,351,323

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

Governmental activities:

Home and community service	$ 635,939
Transportation	527,504
Public safety	364,542
General government	90,071
Culture and recreation	43,093
Total depreciation expense	$ 1,661,149

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

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

The City's employees are among Tiers 1 through 6. Employees in Tier 3, 4, 5, and 6 are required to contribute at least 3% of their wages to the Systems. For employees in Tier 3 and 4, the 3% contribution ceases after 10 years of membership or 10 years of credited service.

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 NYSPFRS 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. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

7. PENSION PLAN (Continued)

The Systems cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The City's contributions for the years 2012, 2011 and 2010 were equal to the required contributions for the plan fiscal year as follows:

Year	ERS	PFRS
2012	$ 550,821	$ 1,411,770
2011	$ 446,135	$ 969,461
2010	$ 373,991	$ 839,238

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, 2012, the City contributed $1,713,334 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 140 participants in the City's Retirement Plan for the year ended December 31, 2012.

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	$ 1,889,400
Amortization of UAAL	3,425,168
Total annual required contribution	5,314,568
Interest on net OPEB obligation	416,350
Adjustment to annual required contribution	(626,200)
Annual OPEB cost	5,104,718
Contributions made	(1,713,334)
Increase in net OPEB obligation	3,391,384
NET OPEB obligation - January 1, 2012	10,408,741
NET OPEB obligation - December 31, 2012	$ 13,800,125

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
2012	$5,104,718	$1,713,334	33.6%	$13,800,125
2011	$4,602,845	$1,721,496	37.4%	$10,408,741
2010	$4,420,237	$1,614,652	36.5%	$ 7,527,392

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)
1/1/2012	12/31/12	$ -	$ 54,743,680	$ 54,743,680	0.0%	$ 9,225,812	593.4%
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%

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

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	8.0% initially, reduced by decrements each year to an ultimate rate of 4.3% in 2082.
Unfunded actuarial accrued liability:	
Amortization period	30 years initially (26 years for current valuation)
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 2011 for $900,000 in order to finance the purchase of two fire trucks. This BAN was renewed during 2012 for a lesser amount, $200,000; and both BANs were repaid by December 31, 2012.

The following is a summary of changes in short-term debt for the year ended December 31, 2012:

Balance, January 1, 2012	$ 900,000
Increases	200,000
Decreases	(1,100,000)
Balance, December 31, 2012	$ -

10. LONG-TERM DEBT

Constitutional Debt Limit

At December 31, 2012, the total outstanding indebtedness of the City aggregated to $13,943,397. Of this amount, $10,545,000 was subject to the City's constitutional debt limit, and represented approximately 32% 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, 2012:

Description	Outstanding 12/31/11	Additions	Deletions	Outstanding 12/31/12	Due Within One Year
Bonds	$ 15,265,000	$ 425,000	$ (1,815,000)	$ 13,875,000	$ 1,935,000
Capital notes	33,667	-	(5,270)	28,397	5,402
Other postemployment benefits	10,408,741	5,104,718	(1,713,334)	13,800,125	-
Compensated absences	5,107,581	571,105	-	5,678,686	1,419,672
Total	$ 30,814,989	$ 6,100,823	$ (3,533,604)	$ 33,382,208	$ 3,360,074

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

For the year ended December 31, 2012, the City recognized interest expense of $610,611 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	$ 610,611
Add: Interest accrued at December 31, 2012	147,994
Less: Interest accrued at December 31, 2011	(129,204)
Total interest expense - governmental activities	$ 629,401

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%	$ 25,000	$ 25,000
Wastewater reconstruction	11/1994	11/2015	4.1%-6.9%	2,095,000	690,000
Public improvement	5/2000	5/2013	5.7%	145,000	145,000
General Purpose	1/2002	1/2014	4.25%-4.5%	825,000	405,000
Public improvement	6/2005	6/2021	3.85%-3.9%	2,210,000	205,000
Public improvement	6/2006	6/2031	4.125%-4.25%	3,345,000	115,000
Refunding of 1996 Public Imp.	3/2008	3/2021	3.25%-4.375%	1,235,000	135,000
Public improvement	2/2009	2/2027	4.5%-4.875%	3,570,000	170,000
Public improvement	1/2012	5/2022	0.5%-3.1%	425,000	45,000
Total				$ 13,875,000	$ 1,935,000

The following table summarizes the City's future debt service requirements as of December 31, 2012 (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
2013	$ 1,935,000	$ 575,632	$ 5,402	$ 710
2014	1,825,000	491,019	5,537	575
2015	1,420,000	413,890	5,676	436
2016	765,000	352,618	5,817	295
2017	795,000	322,598	5,965	147
2018 – 2022	3,720,000	1,115,270	-	-
2023 – 2027	2,455,000	491,046	-	-
2028 – 2031	960,000	83,726	-	-
Total	$ 13,875,000	$ 3,845,799	$ 28,397	$ 2,163

11. FUND BALANCES

As of December 31, 2012, fund balances are composed of the following:

	General Fund	Sewer Fund	Special Grant Fund	Water Fund	Capital Projects Fund	Nonmajor Funds
Restricted -						
Law	$ 3,065,285	$ 1,503,143	$ -	$ 84,521	$ -	$ -
Assigned -						
General government	6,997	-	-	-	-	-
Public safety	77,491	-	-	-	-	-
Culture and recreation	10,731	-	-	-	-	-
Other spendable amounts	-	872,214	1,166,350	792,772	761,069	115,686
Unassigned	83,089	-	-	-	-	-
Total	$ 3,243,593	$ 2,375,357	$ 1,166,350	$ 877,293	$ 761,069	$ 115,686

12. INTERFUND ACTIVITIES

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

Interfund receivables and payables at December 31, 2012 were as follows:

Fund	Interfund Receivables	Interfund Payables	Interfund Revenue	Interfund Expense
General fund	$ 107,740	$ 300,000	$ 433,834	$ -
Water fund	-	12,383	-	198,127
Sewer fund	300,000	22,186	-	235,707
Agency fund	-	69,384	-	-
Capital projects fund	-	3,787	-	-
Total	$ 407,740	$ 407,740	$ 433,834	$ 433,834

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, 2012, the City incurred premiums or contribution expenditures of approximately $183,000.

14. COMMITMENTS AND CONTINGENCIES

General Information

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

14. COMMITMENTS AND CONTINGENCIES (Continued)

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

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

Concentrations
The City has agreements with the full-time members of its employees' unions. Together, these unions represent approximately 72% of the City's workforce at December 31, 2012.

15. SUBSEQUENT EVENT

On July 18, 2013, the City issued a $850,000 Bond Anticipation Note which matures on July 18, 2014. This 2013 BAN Series A will be used for the 2013 road improvement program. On the same date the City issued a $650,000 Bond Anticipation Note which matures on January 17, 2014. This 2013 BAN Series B will be used for the wastewater treatment plant.

16. IMPACT OF FUTURE GASB PRONOUNCEMENTS

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.

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Reporting for Pension Plans*. This standard improves accounting and financial reporting by requiring governments to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits through additional disclosures and required supplementary information. The City is required to adopt the provisions of Statement No. 68 for the year ending December 31, 2015. 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, 2012

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	$ 8,329,982	$ 8,329,982	$ 7,948,266	$ (381,716)
Nonproperty tax items	5,179,198	5,179,198	5,342,198	163,000
Departmental income	779,438	779,438	638,020	(141,418)
Intergovernmental charges	244,265	248,999	228,643	(20,356)
Use of money and property	46,690	46,690	39,479	(7,211)
Licenses and permits	123,708	123,708	129,535	5,827
Fines and forfeitures	180,115	180,115	291,501	111,386
Sale of property and compensation for loss	30,000	112,838	102,916	(9,922)
Miscellaneous	8,500	37,840	68,541	30,701
State aid	2,627,730	2,634,982	2,245,795	(389,187)
Federal aid	-	294,280	294,280	-
Total revenues	17,549,626	17,968,070	17,329,174	(638,896)
EXPENDITURES:				
General governmental support	1,507,849	1,400,204	1,196,786	203,418
Public safety	7,031,816	7,479,365	7,137,884	341,481
Transportation	1,307,451	1,370,745	1,297,561	73,184
Culture and recreation	1,031,999	1,069,239	933,382	135,857
Home and community services	585,166	539,988	525,808	14,180
Employee Benefits	5,566,268	5,808,934	5,745,874	63,060
Debt service	943,911	951,917	951,916	1
Total expenditures	17,974,460	18,620,392	17,789,211	831,181
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(424,834)	(652,322)	(460,037)	192,285
OTHER FINANCING SOURCES (USES):				
Proceeds from capital leases	220,000	220,000	-	(220,000)
Operating transfers - in	433,834	433,834	433,834	-
Operating transfers - out	(229,000)	(100,000)	-	100,000
Total other financing sources (uses)	424,834	553,834	433,834	(120,000)
CHANGE IN FUND BALANCE	-	(98,488)	(26,203)	72,285
FUND BALANCE - beginning of year	3,174,577	3,174,577	3,174,577	-
FUND BALANCE - end of year	$ 3,174,577	$ 3,076,089	$ 3,148,374	$ 72,285

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, 2012

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	$ 1,166,398	$ 1,166,398	$ 1,198,782	$ 32,384
Departmental income	2,569,000	2,569,000	2,620,564	51,564
Sale of property and compensation for loss	-	-	1,502	1,502
Miscellaneous	-	-	61	61
Use of money and property	425	425	1,500	1,075
Total revenues	3,735,823	3,735,823	3,822,409	86,586
EXPENDITURES:				
General governmental support	502,577	470,136	33,690	436,446
Home and community services	1,524,116	1,534,405	1,639,113	(104,708)
Employee benefits	307,025	337,377	327,618	9,759
Debt service	1,166,398	1,166,398	1,150,187	16,211
Total expenditures	3,500,116	3,508,316	3,150,608	357,708
EXCESS OF REVENUES OVER EXPENDITURES	235,707	227,507	671,801	444,294
OTHER FINANCING USES:				
Operating transfers - out	(235,707)	(235,707)	(235,707)	-
Total other financing uses	(235,707)	(235,707)	(235,707)	-
CHANGE IN FUND BALANCE	-	(8,200)	436,094	444,294
FUND BALANCE - beginning of year	1,939,263	1,939,263	1,939,263	-
FUND BALANCE - end of year	$ 1,939,263	$ 1,931,063	$ 2,375,357	$ 444,294

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

CITY OF CORTLAND, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Departmental income	$ 1,761,971	$ 1,761,971	$ 1,698,579	$ (63,392)
Use of money and property	2,500	2,500	3,843	1,343
Licenses and permits	-	-	30	30
Intergovernmental charges	-	-	3,500	3,500
Sale of property and compensation for loss	-	-	3,460	3,460
Miscellaneous	-	-	58,179	58,179
Total revenues	1,764,471	1,764,471	1,767,591	3,120
EXPENDITURES:				
General governmental support	41,818	12,176	12,176	-
Home and community services	898,216	912,156	767,417	144,739
Employee benefits	350,001	365,703	355,868	9,835
Debt service	328,778	328,778	328,778	-
Total expenditures	1,618,813	1,618,813	1,464,239	154,574
EXCESS OF REVENUES OVER EXPENDITURES	145,658	145,658	303,352	157,694
OTHER FINANCING SOURCES (USES):				
Operating transfers - out	(198,127)	(198,127)	(198,127)	-
Total other financing sources (uses)	(198,127)	(198,127)	(198,127)	-
CHANGE IN FUND BALANCE	(52,469)	(52,469)	105,225	157,694
FUND BALANCE - beginning of year	772,068	772,068	772,068	-
FUND BALANCE - end of year	$ 719,599	$ 719,599	$ 877,293	$ 157,694

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

SECTION B

OMB CIRCULAR A-133

Bonadio & Co., LLP
Certified Public Accountants

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

July 31, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland, New York (the City) as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

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

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

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

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

July 31, 2013

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

Report on Compliance for Each Major Federal Program
We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program
In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Bonadio & Co., LLP

CITY OF CORTLAND, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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**	**$ 85,410**
Passed through NYS Office of Community Renewal - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	**14.228**	**Program income**	**37,114**
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	**14.228**	**285ME691-10**	**6,615**
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	**14.228**	**285ED4510-11**	**131,583**
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	**14.228**	**285HR146-11**	**158,896**
			419,618
Passed through the NYS Division of Housing and Community Renewal - Home Investment Partnerships Program	14.239	20103269	181,002
			181,002
Total U.S. Department of Housing and Urban Development			600,620
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	N/A	690,687
Total U.S. Department of Homeland Security			690,687
Total Expenditures of Federal Awards			$ 1,291,307

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, 2012

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

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

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

3. 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.

6. SUBRECIPIENTS

The City provided $396,407 to subrecipients of the Assistance to Firefighters Grant program (CFDA number 97.044) during the year ended December 31, 2012.

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's 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 Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.

4. No material weaknesses or significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance.

5. The auditor's report on compliance for the City's major federal award program expresses an unqualified opinion.

6. There were no audit findings relative to the major federal award program for the City.

7. The program tested as a major program was:

   - CFDA No. 14.228 — Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii

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 AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

July 31, 2013

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

Report on Compliance of the State Transportation Assistance Program
We have audited the City of Cortland, New York's (the City's) compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the City's state transportation assistance program tested for the year ended December 31, 2012. The City's State Transportation Assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

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

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

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

Opinion on State Transportation Assistance Program
In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program for the year ended December 31, 2012.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, but not for the purpose of expressing an opinion over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Bonadio & Co., LLP

CITY OF CORTLAND, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2012

Program Title	NYSDOT Contract/ Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program (CHIPS)	N/A	$ 230,157

CITY OF CORTLAND, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2012

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. INDIRECT COSTS

There are no indirect costs in the accompanying schedule.

4. MATCHING COSTS

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

CITY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:

   - No material weaknesses were identified.

2. The independent auditor's report on compliance with requirements of the state transportation assistance program; and report on internal control over compliance 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.