



City Council Minutes
The City of Cortland
September 1, 2009

Council Meeting #17
September 1, 2009
Regular Session
City Hall
7:00 PM

Present: Alderman Benedict, Tobin, Quail, Feiszli, Hamilton and Michales

Staff Present: Director of Administration and Finance Bryan Gazda,
Corporation Counsel Lawrence Knickerbocker and City Clerk John O. Reagan

Mayor Gallagher calls the seventeenth Common Council meeting of the year to order at 7:00 PM.

PLEDGE OF ALLEGIANCE

PUBLIC COMMENT

No one was present to speak.

Minutes of August 18, 2009

RESOLUTION #97 OF 2009 – Approve the minutes of August 18, 2009 as amended.

By: Alderman Hamilton
Seconded: Alderman Michales

Approved: Ayes – 5
Nays – 0

Bills were reviewed and received.

(Alderman Tobin arrived)

Mayor's Report

He attended the ribbon cutting ceremony for the YWCA's Child Advocacy Program at 19 Church Street. He met with Brown & Brown, insurance brokers, for continued discussion on our upcoming insurance rates. He attended the Celtic Fest. He attended the initial meetings for the selection of a new Executive Director for the Chamber of Commerce. He met with Jim Place and Steve Franco, a new partner for Place Insurance Agency. He attended the ribbon cutting and open house of the Clocktower. He attended SUNY Cortland for President Bitterbaum's overview of 2009-2010. He met with Thoma Development and the Department of State to review the Brownfield Opportunity Area programs. He welcomed the new Chief of Police, Mike Catalano and the Deputy Chief, Paul Sandy.

Ward 2 – Alderman Benedict

There really seems to be a lot going on in Cortland County. He recently went to a Jets practice, the Celtic Festival, a barn dance in Polkville and the annual Splash of Hope Lake put on by the 40 Below Club. He appreciates the work the volunteers did to make these events successes. He also appreciates the sponsors for their contribution. He learned a lot about projects in the area from the members of the 40 Below Club even though he is not below 40.

He met with Bryan Gazda and later the Mayor to discuss a number of topics. They discussed Bryan's contract, the berm in the Water Works and the bridge at Madison and Homer Avenues. While he was there he pointed out some road hazards in his district. He also talked to Amanda Barber at the County Soil and Water Department and Brenda DeRusso of the County Emergency Management Office about the berm project.

Late this afternoon the workers from Homer Iron Works began taking away the deck of the bridge on the corner of Madison & Homer Avenues. He has received several e-mails about 19 West Court Street and the request to expand the number of students. He was unable to be at the Planning Commission meeting in August, but he is very concerned about the population density in that area.

Ward 4-Alderman Tobin

He has been working with Mike Holland from SUNY Cortland. He's concerned about the rental permit law and its enforcement, and making sure students at the college are aware of the implications. He had some Code questions arise in his neighborhood about signage and questions about a tree that may need to be limbed on 31 Pearl Street. He has some other issues he is working on.

Ward 5 – Alderman Quail

He reminded students and renters that they can't park across sidewalks. There have been several instances where cars have been parked which have blocked sidewalks. He also has a situation with Perplexity Creek going up Valley View

Drive where trees and grocery carts are in the creek. He has asked Chris Bistocchi to take a look at that. He also had some questions regarding blacktop curbing on Pendleton Street. Residents have noted that they didn't look as good as other areas. He has asked Chris Bistocchi for a cost. Chris told him that the blacktop curbing cost three thousand dollars (\$3,000) and concrete or granite it would be over fifty thousand (\$50,000) dollars. If that money was spent on the curbing it would cut back on the paving of the main street. He contacted Dave Briggs with regards to looking at the senior citizen's exemption levels to see what the impact would be if it was raised from \$22,700 to \$24,000. Mr. Briggs will get back to him with some numbers within the next couple of weeks. He noted that with each \$1,000 increase, it would effect about thirty (30) seniors and would results in about a two (2) or three (3) cent increase per thousand.

He has some questions regarding City finances and he would like to get a feel with regard to the deficit. He will be speaking with Bryan Gazda to express his concerns. He is concerned about the overall headcount for staffing in the coming budget year. He is concerned about a shortfall in revenues.

He also attended the open house at the Clock Tower Building. For him, it is the cornerstone for the South End. He felt it really set the tone for the neighborhood and he commended John Scanlon for completing the project. He noted that without State funds, the project might not have taken off and he felt that it helped the City.

Ward 6 – Alderman Feiszli

She reminded everyone that September 26 was going to be the Otter and Dry Creek Clean Up Project in conjunction with Cortland County Soil and Water's River Maintenance project. She asked Alderman Quail for the address of the Perplexity Creek debris and volunteers could be sent over there. She noted that over on Front Street there is some confusion regarding who owns trees. This has been talked about before. It's along the Tioughnioga River and the question is who is responsible for maintaining those trees and the dead limbs. She asked Corporation Counsel Knickerbocker to look into that. She received a call about increased truck traffic on Hubbard Street. She notified the Plant Manager at Marietta, who will contact the trucking companies. Hopefully, it's just some new truck drivers who don't know the route.

She received a call regarding speeding on Locust Avenue. The Police Department put up a speed monitor, which has helped, and she has requested that Public Safety look for a long term solution. She attended the Rehab Reunion at the Cortland Care Center. Her mother had opted to use that center after her knee surgery and enjoyed attending the reunion. She noted that Cortland Care provided wonderful care for their patients. She also attended the Celtic Committee and met with the Environmental Review Committee. She noted that there will be another meeting this week with new members. Finally, she asked to have a

workshop scheduled prior to our next Council meeting (September 15, at 6:30 PM) to go over the budget information that the Council recently received from the Finance Department.

Alderman Quail felt that the Council should lay out some goals prior to coming into the budget process and then hold the department heads responsible for meeting those goals and objectives. He had sent out an e-mail in that regard and Alderman Tobin did respond with some goals and objectives. He would like to see that first before going over the budget. Director of Administration and Finance Gazda stated that he and Lori Crompton already had planned to have something to present regarding the 2009 budget at the next Council meeting. He noted that they would have some projections at that time. Alderman Quail noted that a work session before the next Council meeting to tie in the two budgets would be good.

Ward 7 – Alderman Hamilton

He is happy to report that the railroad crossing on Elm Street has been repaired. They did a nice job. He, too, received a telephone call regarding tractor trailer traffic on Hubbard Street. The report was that two (2) trucks had gone down Hubbard Street in the morning and two (2) trucks together in the late afternoon. He noted that it didn't sound like a traffic problem to him. He felt that the signs placed by Public Safety and the efforts by the Mayor and the Police Department and the Marietta Corp. have worked to decrease the truck traffic by quite a bit.

He also received a call regarding a storm drain on the corner of Elm and Pendleton Streets. The pavement had washed away and barriers have been placed there, but it has yet to be repaired.

Ward 8 – Alderman Michales

He met with Mike Preston last week to discuss street light repairs. What they have both gathered is that National Grid is waiting until they have several street lights out before they'll send crews out to fix them. That's why, he believes, it's taking some time to before a crew comes out. He also met with a resident in Alderman VanGorder's Ward regarding an application for an exotic pet permit for rabbits, and he asked that this be placed on the agenda for tonight. He noted that the woman had twelve (12) rabbits and he'll explain more when the item comes up.

Once again, he is trying to resolve the tree issue at 61 Church Street. He has received a cost estimate from Stub's Tree Service to bring the tree down. He noted that this tree is a liability issue to the City as it's in the City's right of way. He has also found out that there are no longer any funds left to take this tree down. He noted that the Council could sit on it and hope that nothing happens until next year, when they can act on it or it can be removed for \$850. The Mayor noted that the liability could be a lot more than the \$850. Alderman Michales noted that Stub's Tree Service confirmed what Nelson's Tree Service had indicated and that

the tree needs to come down and the sooner the better. He also noted that when driving around the City that there are other trees in other Wards that also have pressing issues, but this tree just had another issue a couple of weeks ago. Mayor Gallagher felt that perhaps they could find the funding for this under Miscellaneous Revenue.

He also attended the ribbon cutting at the Clock Tower Building and Open House. The event was very well attended. He noted that many city residents wanted to see what the inside of the building looked like after watching construction these many months. Everyone was impressed with the apartments including the senior citizens.

Item No. 1 – Presentation of 2008 financial audit by Duane Schoen, CPA of Ciaschi, Dietershagen, Little, Mickelson & Company, LLP.

Mr. Schoen offered to answer the Council's questions, if there were any, during the presentation. He started with the Financial Report. He stated that he will point out to the Council what they should be looking at and then he will discuss some of the findings and issues.

He noted that the first page was the Independent Auditor's Report with their unqualified report. This means that the financial statements are fairly stated. He noted that the accounting standards in 2008 had changed for the City. This is Statement 45 which requires an actuarial analysis of the City's post employment benefit liabilities other than pensions. This is mostly retirees and requires that the City hire an actuary, that they review all of the different plans and all of the negotiated contracts and to try to come up with an estimate of the overall liability that the City has for all of their employees, both retirees and active employees who are receiving or will receive retiree benefits. The standard requires that they accountants begin reporting that liability in the government line financial statements. The entire liability is not reported in the first year, but the reporting process is beginning.

After the auditors' opinion, there are several pages of Management Discussion and Analysis. He discussed the management letters. He referred to the budget analysis. He spoke about the GASB Statement 45 and how that increased the liabilities. He spoke about the revenue and noted that approximately one third (1/3) of the City's revenue came from real property taxes and items and roughly twenty (20) percent came from sales taxes and roughly twenty-eight (28) percent came from charges for services such as water and sewer fees as well as some other smaller sources. There isn't much change from year to year. He noted page 2E showed charts indicating the cost of revenue.

Alderman Quail asked if the increase in Health and Safety as due to the increase in benefits. Mr. Schoen noted that was correct. He also asked why the operating grants had decreased. Mr. Schoen noted that both the operating and the capital

grants are because the capital activities were finishing up in 2007 rather than 2008 and most of the revenue was seen in 2007. He noted the section entitled economic factors and next year's budget, gives a little information about where things are going in 2009 compared to 2008. He noted that there was also information about tax collection procedures, the booting program for parking tickets and the new Clock Tower Building and what's coming forward.

He noted that the City has almost ten million dollars in net assets related to capital assets and the debt associated with it and that there is an unrestricted deficit of about five million dollars. He noted that about half of that deficit is related to the GASB 45 change which increased the City's liability by two point four (2.4) million dollars during 2008 and there is no offset to that liability. He noted that the unrestricted deficit will grow as the GASB 45 liability continues to grow. He noted that the City reports their current costs and a portion of the past costs and over the next thirty (30) years there will continue to be an increasing liability from the past service costs. The total liability is estimated to be about forty (40) million dollars.

The fund basis financial statements begin on page 5 and 5A. The fund basis statements are in balance without the capital assets and the long term debt being added to it. He pointed out that there were also reconciliation pages to compare the funds balance sheets to the government wide statements. The following notes summarize the accounting policies of the City. He referred to page 17 as to where other receivables are coming from as well as some descriptive information. He noted that on pages 20 to 22 there was an explanation of GASB 45 and the total actuarial accrued liability for benefits. He next reviewed short-term and long-term debt. He went on to explain the budget comparison schedules for the various funds to show actual activity during the year compared to the final budget. He noted that the General Fund ended up a bit worse than what the budget was and that the Sewer Fund was about one hundred thousand dollars (\$100,000) worse than the budget was and the Water Fund exceeded its budgetary expectations by about two hundred thousand (200,000) dollars.

He referred to page 37 for the listing of federal expenditures which are passed through from the State to the City and he noted that there were no findings with the administration of the federal programs. There had been some testing of the community development programs and nothing was discovered. He discussed the final page of the report where they discussed the deficit General Fund Balance and about the cause, the effect and the auditor's recommendations.

He next went on to the Auditors responsibility under U.S. generally accepted auditing standards and OMB Circular A-133 Letter to the Council. It's a standard document. He noted that there had been an adjustment to the tax statement amount and it is being taken care of in 2009. He next went on to the Management Letter and various recommendations and one resolution.

(A copy of the management letters and a portion of the 2008 Financial Reports are attached. Due to its size, a complete report is available for viewing at City Hall.)

Alderman Michales asked about the recommendation with regards to the internal controls and could the resolution of that result in more errors. Mr. Schoen noted that it was possible, but in the auditor's opinions, that the benefits of segregating those duties outweighed the cost of potential errors. Alderman Michales asked why late payment fees had occurred in the Waste Water Department. Director of Administration and Finance Gazda noted that it was because there wasn't always money available in their account to make payment and that is being worked on and corrected. Alderman Michales noted that this audit pointed out some things that the Council might not know otherwise, such as uncashed checks. Director of Administration and Finance Gazda noted that it would take some detective work to find out why checks had not been cashed by vendors. Mr. Schoen noted that at some point, State Law dictated that those funds would have to be turned over to the State's Unclaimed Funds in the Comptroller's Office. Alderman Quail noted that he didn't see any significant or material weaknesses, but he did see areas where the City could improve. The auditor agreed with him.

Alderman Feiszli asked about the audit's recommendation regarding a Cell Phone Use Policy or a Credit Card Use Policy, a Vehicle Use Policy or an Internet Use Policy being implemented. She asked which one the auditor suggested they implement first. He noted that strictly from an accounting aspect, that he would implement the credit card use policy. He noted that it has the most potential for there being something significantly wrong happening. He felt that the other policies were something they would like to have, but the potential for the magnitude of loss is much less in those other policies. Alderman Feiszli asked which departments had credit cards presently. She added that she knew the Youth Bureau had one. Mayor Gallagher noted that the Police Department had them. Alderman Quail asked if there was an approval flow and any reconciliations being done on credit cards currently. The auditor noted that they were being reconciled and approved in a timely manner. Alderman Quail then noted that there was currently minimal risk, but that there was exposure. The auditor agreed.

Alderman Michales noted that the auditor had referred to a procurement policy. Alderman Feiszli asked the auditor to explain that. Mr. Schoen noted that this was in reference to the purchase of supplies, goods and services. They would want to have bidding limits, quote limits in that policy and making sure that the City is not purchasing from vendors that might have a conflict of interest with the City. He noted that the last written update was in 1992 and this should be reviewed annually and readopted and documented in the Council minutes. Alderman Michales asked who should be responsible for that. Both Mayor Gallagher and Director of Administration and Finance Gazda noted that they were responsible. Alderman Feiszli asked about the retirement amount that should be set aside for 2010. She asked if there was a formula in the document or what the Council should be looking at. Mr. Schoen stated that they should be looking at a similar

numbers unless something changed. The figures reflected current numbers, but the actuary has to come back every two (2) years or if there is a significant change in the plan such as a negotiated agreement. Barring any changes, he expects to see a similar number for 2009 as there was in 2008. He also noted that at the State level there has yet to be a mechanism to pre-fund the current plan. He noted that some municipalities are trying to set aside money to fund some of these liabilities and the State Legislature has yet to approve a mechanism for them to do that. Alderman Michales asked what the auditor's opinion of the financial situation of the City based on the auditor's findings. Mr. Schoen stated that his opinion was that the City's financial situation was distressed and that there was certain concern and that he is hopeful that the property tax auction and collection that's upcoming in six (6) to nine (9) months is going to largely remove some of these doubts. He noted that any money that comes in from that auction will reduce the receivable and hopefully, float the fund balance back up in to the black and hopefully, to keep it there.

Alderman Feiszli noted that the City credit rating was a BAAA2. She asked what that meant. Mr. Schoen stated that it was not a junk rate, but not a particularly good rating. He felt that the City was a little less than the middle of the pack in its overall rating.

RESOLUTION #98 OF 2009 – Consideration of the following action relating to the 12th Annual Great Cortland Pumpkinfest:

A. Permission to use the City's portion of Court House Park on October 3 and 4, 2009.

B. Permission to place promotional signs near the City's entrance signs from September 28 until October 5, 2009.

C. Permission to use a portion of Court House Park for a Microbrew sampling on October 3, 2009, from 1:00 P.M. to 5:00 P.M.

By: Alderman Feiszli
Seconded: Alderman Michales

Approved: Ayes – 6
Nays – 0

RESOLUTION #99 OF 2009 – Consideration of the confirmation of the appointment of Stephen Pearsall (33 Hamlin Street) to the Department of Public Works Commission replacing Gerald Mahar (term will expire January 31, 2013).

By: Alderman Feiszli
Seconded: Alderman Quail

Approved: Ayes – 6
 Nays – 0

RESOLUTION #100 OF 2009 – Consideration of a Resolution to adopt Civil Service staffing roster.

Director of Administration and Finance Gazda explained that this had been put together by Civil Service and the City Payroll Clerk. He noted that there was a vacancy on that list, but it doesn't need to or mean that it has to be filled. Alderman Quail asked if these positions were in the budget. Director of Administration and Finance Gazda noted that he wasn't sure, but assumed that since they came off of the payroll, that they were within the budget. Alderman Michales asked if any departments were seeking to fill vacancies. Director of Administration and Finance Gazda noted that Mr. Davis at the Waste Water Treatment Plant would like to fill at least one (1) of the vacancies listed, but no other department heads had mentioned anything to him. Mayor Gallagher noted that Waste Water had had a significant cut in staff and that within the next week he, the DEC and Bryan Gazda would be reviewing the staffing needs at the Waste Water Plant. Alderman Quail felt that they should consider deferring the hiring until next year. Mayor Gallagher noted that the hiring would be done by the Common Council, so it would be up to them. Director of Administration and Finance Gazda noted that the largest deficit was in the Fire Department and after speaking with Chief Baron, he noted that this would enable new hires to be put on the roster while they were attending the academy, so they wouldn't have to come back and redo the roster. Chief Baron understands that his manning level is twenty-two (22).

Alderman Feiszli noted that she saw significant overtime in departments that were fully staffed. She wanted to talk more about the paying of overtime compared to the hiring of another staff member and having to pay benefits plus a salary.

By: Alderman Quail
Seconded: Alderman Feiszli

Approved: Ayes – 6
 Nays – 0

RESOLUTION #101 OF 2009 – Consideration of the approval of the contract for Bryan Gazda, Director of Administration and Finance with the addition of the clause of City residency for the term of the contract.

Alderman Benedict and Director of Administration and Finance Gazda noted that they had discussed this and Mr. Gazda was in agreement with that. Corporation Counsel Lawrence Knickerbocker noted that they could add the clause that "Mr. Gazda agreed to relocate to the City of Cortland within a" given period of time. He felt that would give him time to relocate. There was some discussion regarding his

days off in the contract. Mr. Gazda noted that they had been prorated and that the contract would expire June 30. Alderman Feiszli asked if it was typical to ratify a contract after someone had been hired and if this was something agreed to during the interview process. Mr. Gazda noted that the terms had been discussed and that some were to the benefit of the City. It was also noted that Mr. Gazda had agreed to pay significantly more than any other employee for his health insurance, which was twenty (20) percent. Corporation Counsel Lawrence Knickerbocker noted that it was Mr. Gazda who had asked to contribute that amount towards his health insurance. It was decided that they would require residency within six (6) months to allow him time to make his home purchase.

By: Alderman Tobin
Seconded: Alderman Benedict

Approved: Ayes – 6
Nays – 0

RESOLUTION #102 OF 2009 – Consideration of the approval of the application made by Arlene Barber, 15 Copeland Avenue for two (2) exotic pet permits to harbor no more than six (6) rabbits per permit for a total of no more than a maximum of twelve (12) rabbits with a follow up visit in about a month.

Alderman Michales stated that an application had been received from Arlene Barber, who is currently housing eleven (11) rabbits at 15 Copeland Avenue. The cages are outside and the rabbits are being housed under the eaves of the garage, which wasn't a good location for them as they got wet from time to time. During his inspection, Alderman Michales asked Ms. Barber to move the location of the cages to the inside of the garage where it was dry. He made a second visit to follow up on this and they had been moved into the garage. He noted that some of the rabbits had been rescued and then eventually they are turned over to Country Max once they get old enough. They are properly fed and watered. He noted that currently the Council had allowed a permit to be sold allowing five (5) for the price of one (1) permit. He felt that it would be fine to issue two (2) permits each allowing six (6) rabbits, if the rest of the Council agreed. That would cover up to twelve (12) rabbits and the applicant noted that she didn't want to house more than a dozen rabbits. Alderman Benedict noted that this was a rescue operation as opposed to a money making venture. Alderman Michales noted that he would check back in the winter to see how the rabbits were doing.

By: Alderman Michales
Seconded: Alderman Feiszli

Approved: Ayes – 6
Nays – 0

PUBLIC COMMENT REOPENED

Jo Schaffer was present. On behalf of the Historic Review Board, she wanted to say how closely that Board had worked with the architects and Mr. Scanlon on the Clock Tower. She noted it was a wonderful example on how the town commission worked with the private developer and the architect and she is pleased with how it worked out. She commended Linda Kline, Chair of the Historic Review Board and noted that she was an extraordinary asset to that board. She noted it was a beautiful finished corner as a result of everyone's hard work.

RESOLVED TO GO INTO EXECUTIVE SESSION TO DISCUSS MATTERS OF LITIGATION.

By: Alderman Tobin
Seconded: Alderman Quail

Approved: Ayes – 6
Nays – 0

RESOLVED TO COME OUT OF EXECUTIVE SESSION AND INTO THE REGULAR SCHEDULED MEETING.

By: Alderman Tobin
Seconded: Alderman Benedict

Approved: Ayes – 6
Nays – 0

RESOLUTION #103 OF 2009 – Consideration of a Resolution authorizing Corporation Counsel Lawrence Knickerbocker to enter into discussions to settle the pending tax certiorari cases with the Cortland County Re-Entry Program.

By: Alderman Quail
Seconded: Alderman Michales

Approved: Ayes – 6
Nays – 0

Adjournment

By: Alderman Benedict
Seconded: Alderman Hamilton

Approved: Ayes – 6
Nays – 0

I, JOHN O. REAGAN, CITY CLERK OF THE CITY OF CORTLAND, NEW YORK DO HEREBY CERTIFY THAT SAID RESOLUTIONS WERE ADOPTED AT A REGULAR MEETING OF THE COMMON COUNCIL OF THE CITY OF CORTLAND, HELD ON THE 1st DAY OF SEPTEMBER 2009. I FURTHER CERTIFY THE FOREGOING RESOLUTIONS WERE PRESENTED TO THE MAYOR IN THE TIME REQUIRED.

JOHN O. REAGAN – CITY CLERK

MAYOR THOMAS GALLAGHER

CITY OF CORTLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General governmental support	\$ 1,867,932	\$ 638,673	\$ 29,757	\$	\$ (1,199,502)
Public safety	11,695,142	352,534	352,372	694	(10,989,542)
Transportation	2,254,971	92,062		240,753	(1,922,156)
Economic opportunity	129,335				(129,335)
Culture and recreation	1,934,415	155,057	29,360		(1,749,998)
Home and community services	5,441,630	5,185,375	429,660	42,915	216,320
Interest on long-term debt	686,497				(686,497)
Total Governmental Activities	\$ 24,009,922	\$ 6,423,701	\$ 841,149	\$ 284,362	(16,460,710)

GENERAL REVENUES

Real property taxes	7,040,885
Real property tax items	422,628
Nonproperty tax items	4,747,634
Use of money and property	136,509
Sale of property and compensation for loss	31,246
Miscellaneous local sources	455,961
Unrestricted State sources	2,408,022
Total General Revenues and Special Items	15,242,885
Change in Net Assets	(1,217,825)
Net Assets - Beginning of Year, as restated	9,905,352
Net Assets - End of Year	\$ 8,687,527

See Independent Auditor's Report and Notes to Financial Statements

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

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

In planning and performing our audit of the financial statements of the City of Cortland for the year ended December 31, 2008, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of internal control was for this limited purpose and would not necessarily identify all matters that might be control deficiencies, significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified one control deficiency that we consider to be a significant deficiency. This item is identified as finding 08-1 and discussed in the Schedule of Findings and Questioned Costs. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

In addition, during our audit we became aware of other matters that present opportunities for strengthening policies, procedures, and operating efficiency. This letter does not affect our report dated August 20, 2009 on the basic financial statements of the City of Cortland.

Current Year Findings

OTHER MATTERS

Policies

Finding:

During our current year audit we noted the City does not currently have policies in place related to credit card use, cell phone use, vehicle use, or internet use.

Recommendation:

We recommend the City develop and implement policies outlining the use of these items.

CORTLAND

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ITHACA

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WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

Finding:

During our current year audit we noted the Youth Bureau has two scholarships for which there is an application but no written statement regarding the specific use of scholarship funds.

Recommendation:

To ensure scholarship funds are being used as intended, we recommend the Youth Bureau obtain written documentation as to use of funds awarded.

Internal Controls

Finding:

During our current year audit we noted the same individual is opening the mail, entering receipts, balancing the drawer, and preparing the deposit. This creates a segregation of duties issue.

Recommendation:

A fundamental concept in a good system of internal control is the segregation of duties. We recommend consideration be given to delegating these duties to several employees in order to further safeguard the City's assets.

Late Payment of Bills

Finding:

During our current year audit we noted that utility bills for the Wastewater Department were not being paid in a timely manner, resulting in late payment fees.

Recommendation:

We recommend that the City pay all bills by their due date to avoid unnecessary expenditure of taxpayer dollars.

Current and Prior Year Findings - Unresolved

OTHER MATTERS

Taxes Receivable

Finding:

During the previous several years, the amount of taxes unpaid at December 31 has increased significantly. Taxes receivable increased from \$986,286 at December 31, 2001 to \$2,183,816 at December 31, 2007. The amount of unpaid taxes increased by 24.5% to \$2,718,626 at December 31, 2008, and we noted that no tax sales or tax auctions have been held in the last several years.

Funds the City does not receive from taxpayers are not available to support the City's programs. These funds will need to be raised in future years by increasing property tax rates or reducing programs. These outstanding tax payments, if not collected, will significantly increase the tax burden on all City taxpayers.

Recommendation:

We continue to recommend City administration and legal counsel increase their efforts to collect outstanding taxes from delinquent taxpayers. The City should consider tax sales and/or tax auctions, in accordance with Real Property Tax Law, to reduce the amounts outstanding.

Current Status:

The City is working toward holding a public auction in 2010 which will improve the enforcement and collection of delinquent taxes.

Stale Dated Checks

Finding:

During our current and prior year audits, we noted several stale dated checks, some older than one year, being carried on the outstanding checks list as reconciling items. However, the total amount of stale dated checks is immaterial to the basic financial statements taken as whole.

Recommendation:

We recommend the City research these checks and attempt to reissue them. If reissue is unsuccessful, the Common Council and management should take action and consult with the State of New York to determine proper disposition of the unclaimed funds in accordance with New York State law.

Current Status:

The City is aware of this problem and is currently working on identifying and researching these checks to take the appropriate action.

Procurement Policy

Finding:

During our current and prior year audits, it was noted the most recent procurement policy is from 1992 and no review of the policy was noted in the minutes. The policy states it is to be reviewed annually.

Recommendation:

We recommend the procurement policy be reviewed and updated annually and this be noted by the Common Council in their minutes.

Current Status:

We noted no review of the procurement policy during the current year.

Prior Year Finding – Resolved

Internal Controls

Finding:

During our prior year audit, it was noted that the Deputy Treasurer makes all bank transfers and no validation is made by the bank to other members of the office. This has also been brought to the attention of the Administration and Finance Office by the bank and no action had been taken as of the date of our field work.

Current Status:

Transfers between banks now require the oversight of the Finance and Administrative Assistant before being completed.

This letter does not affect our report dated August 20, 2009 on the basic financial statements of the City of Cortland.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Cianchi, Fitzpatrick, Little, McLaughlin, & Company, LLP

August 20, 2009
Ithaca, New York

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cortland for the year ended December 31, 2008, and have issued our report thereon dated August 20, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City of Cortland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Cortland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Cortland's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Cortland's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Cortland's compliance with those requirements.

Planned Scope of Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

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Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Cortland are described in Note 1 to the financial statements. Other than Governmental Accounting Standards Board (GASB) Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions", no new accounting policies were adopted and the application of existing policies was not changed during 2008.. We noted no transactions entered into by the City of Cortland during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were depreciation expense, compensated absences and other postemployment benefits payable.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were capital assets and liabilities, the details of which are presented in Notes 2.A.4 and 2.B in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following audit adjustment was reviewed, approved and posted by management to correct certain significant misstatements.

- General Fund - The following audit adjustment, with a net effect of reducing fund balance by \$565,000 was proposed:
 - Real property tax revenue decreased, and deferred tax revenue increased by \$565,000 to reflect an increase in the amount of tax liens which will not be collected within the first sixty days of 2009.

In addition, none of the other misstatements detected as a result of audit procedures, whether corrected or uncorrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Matters or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would like to thank you and your staff for the cooperation and support given to us during the course of the audit. We appreciate the opportunity to be of service to you and look forward to our continued involvement.

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

Cianchi, Dintchman, Little, Middleman, & Company, LLP

August 20, 2009
Ithaca, New York

CITY OF CORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

Our discussion and analysis of the City of Cortland's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2008. 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 in introduction, please read it in conjunction with the City's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,687,527 (net assets). However, unrestricted net assets, the portion of net assets which may be used to meet the government's ongoing obligations to citizens and creditors, was a deficit of \$(5,090,062) at December 31, 2008.
- During the year ended December 31, 2008, the City received an actuarial valuation of its retiree medical insurance liability in accordance with the adoption of Governmental Accounting Standards Board (GASB) Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." The City's annual required contribution (ARC) for 2008 was \$3,536,556. However, the City paid \$1,131,165 during the current fiscal year and has recorded a liability in the Statement of Net Assets of \$2,405,401 for the remaining portion of the ARC.
- During the year, the City had expenses that were \$1,217,825 more than the \$22,792,097 generated in tax and other revenues for governmental programs. This compares to last year when revenues exceeded expenses by \$1,962,392, and revenues were \$22,953,271.
- General Fund expenditures of \$17,189,556 exceeded revenues of \$16,738,866 in 2008, decreasing fund balance to a deficit of \$(306,716) at December 31, 2008.
- The City's bond obligations decreased by \$1,840,000, or 9.8 percent, during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 3 and 4) provide information about the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 5. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the Government-wide statements by providing information about the City's most significant 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.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 3, with the Government-wide statements. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer the question of whether the City, as a whole, is better off or worse off as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

CITY OF CORTLAND
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 1,713,156
Taxes receivable, net	<u>2,718,626</u>
Due from state and federal governments	<u>575,650</u>
Other receivables, net	<u>1,639,285</u>
Loans receivable, current portion	<u>201,448</u>
Total current assets	<u>6,848,165</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	<u>589,153</u>
Loans receivable, long-term portion	<u>2,440,456</u>
Land and construction in progress	<u>1,487,500</u>
Depreciable capital assets, net of accumulated depreciation	<u>23,762,465</u>
Total Noncurrent Assets	<u>28,279,574</u>
Total Assets	<u>35,127,739</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable and accrued liabilities	<u>89,712</u>
Interest payable	<u>90,741</u>
Due to other governments	<u>53</u>
Due to employees' retirement system	<u>785,154</u>
Current portion of long-term liabilities:	
Notes payable	<u>5,490</u>
Bonds payable	<u>1,910,000</u>
Total Current Liabilities	<u>2,881,150</u>
Noncurrent Liabilities:	
Other post-employment benefits due after one year	<u>2,405,401</u>
Notes payable	<u>49,154</u>
Compensated absences	<u>6,109,507</u>
Bonds payable	<u>14,995,000</u>
Total Noncurrent Liabilities	<u>23,559,062</u>
Total Liabilities	<u>26,440,212</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	<u>9,947,027</u>
Restricted, expendable for community development	<u>3,830,562</u>
Unrestricted (deficit)	<u>(5,090,062)</u>
Total Net Assets	<u>\$ 8,687,527</u>

See Independent Auditor's Report and Notes to Financial Statements