

# CORTLAND COUNTY FINANCIAL STATEMENTS



YEAR ENDING  
DECEMBER 31, 2010

COUNTY OF CORTLAND  
60 Central Avenue  
Cortland, New York 13045

COUNTY OF CORTLAND

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Members of  
the County Legislature of the  
County of Cortland  
Cortland, New York

I have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units and each major fund of the County of Cortland, New York as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Cortland's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, and each major fund, of the County of Cortland, New York at December 31, 2010, and the respective changes in financial positions and cash flows, where applicable, thereof of its propriety fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated September 26, 2011, on my consideration of the County of Cortland, New York's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information, on pages 3 through 9 and 54 and 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cortland, New York's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 26, 2011



Richard McNeilly, CPA

**COUNTY OF CORTLAND, NEW YORK**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For The Year Ended December 31, 2010**

Our discussion and analysis of the County of Cortland, New York's (the County) financial performance provides an overview of the County's financial activities for the year ended December 31, 2010. This document should be read in conjunction with the County's financial statements that begin on page 10.

**FINANCIAL HIGHLIGHTS**

The County's net assets, including the reporting of the Tobacco Asset Securitization Corporation (TASC), decreased \$2,788,178 as a result of this year's activity. The primary factor contributing to this decrease was the reporting of the GASB 45 actuarial liability for post employment health, dental and vision benefits (OPEB) of \$3,681,385.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on Page 14. 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 County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

**REPORTING THE COUNTY AS A WHOLE**

The Statement of Net Assets and the Statement of Activities Our analysis of the County as a whole begins on Page 10. An important question to ask when reviewing and discussing the County's finances is, "Is the County's financial standing as a whole better or worse as a result of the year's activities?" The statement of net assets and the statement of activities report information about the County as a whole and about its activities in a way that helps answer this question.

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 cash is received or paid. These two statements report the County's net assets and changes in them. You can think of the County's net assets the - the difference between assets and liabilities - as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the County's property tax base and the condition of the County's road's and infrastructure, to assess the overall health of the County. In the statement of net assets and the statement of activities, divide the County into types of activities:

- Governmental activities - Most of the County's basic services are reported here, including public safety, 'public works, economic assistance, health, nursing services, and general administration. Property taxes, sales taxes, franchise fees, and State and federal grants finance most of these activities.
- Business type activities - During 2006, the County started the Solid waste fund, an enterprise fund, to record the activities related to landfill operations and recycling operations. This year there are three years of financial results.
- Component units - The County includes the Cortland County Industrial Development Corporation, a public Benefit corporation created by state Legislation to promote the economic welfare, recreation opportunities, and the prosperity of the county's inhabitants; and the Soil and Water Conservation District, as declared by the County in accordance with provisions of the Soil and Water Conservation Law. Also, the Cortland Tobacco Asset Securitization Corporation, created in August under Section 1411 of New York State Not-For Profit Corporation law is reported as "blended" with the General Fund.

#### **REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS**

Fund Financial Statements

Our analysis at the County's major funds begins on Page 14 and provides detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Legislature may establish other funds to help it control and manage money for particular purposes. The County's two types of funds - Governmental and Proprietary - use different accounting approaches.

**Governmental Funds** - Most of the County's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances 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 readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the County's general government operations and the basic services provided. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (of differences) between governmental activities (reported in the statement of net assets and the statement of activities) and Governmental Funds in reconciliation on Page 19.

- **Proprietary Funds** - When the County charges customers for the services it provides - whether to outside customers or to other units of the County - these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, The County's Enterprise Funds (a component of Proprietary Funds) are the same as the business-type activities we report in the government-wide statements that provide more detail and additional information, such as cash flows, for Proprietary Funds.

#### **THE COUNTY AS TRUSTEE**

**Reporting the County's Fiduciary Responsibilities**

The County is the trustee, or fiduciary, for its employees deferred compensation plan. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. All of the County's

fiduciary activities are reported in separate statements of fiduciary net assets on Page 23. We exclude these activities from the County's other financial statements because the County can not use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE COUNTY AS A WHOLE**

The County's combined net assets decreased from \$71,773,490 to \$68,985,312. This decrease is primarily due to the application of GASB 45 by reporting health, dental and vision benefits to retirees (OPEB) and to balance the 2010 budget. Our following analysis is focused on the net assets (table 1) and changes in net assets of the County's governmental activities and business type activities.

**Table 1**

<u>Assets</u>	<u>Net Assets</u>			
	<u>Governmental Activities</u>		Business Type Activities	
	2010	2009	2010	2009
<b>Current and Other Assets</b>				
Cash/ Cash Equivalents	5,050,366	6,071,576	460,312	988833
Accounts receivable	726,050	725,835	48,779	
Taxes receivable (Net)	5,439,546	5,124,748		
State and Federal Receivables	11,320,829	7,500,422		
Other Receivables	0	8,288		
Due from Fiduciary	394,346	-47770		15,978
Inventory	391,778	283,047		
Prepaid Items	711,124	466,337	11,711	7,583
Total Current Assets	24,034,039	20,131,483	520,802	1,012,394
<b>Noncurrent Assets</b>				
Cash Cash Equivalents - restricted	437,123	699,899	1,038,691	1,439,195
Capital Assets - depreiable (net)	74,861,265	73,655,494	13,563,620	13,449,932
Capital assets - land	1,221,700	1,221,700	176,300	176,300
Construction in Progress	5,506,086	7,736,614		
Notes Recievable	4,019,120	4,304,120		
Investments	851,668	869,020		
Total Noncurrent Assets	86,896,962	88,486,837	14,778,611	15,065,427
Total Assets	110,931,001	108,618,320	15,299,413	16,077,821
<b><u>Liabilities</u></b>				
<b>Current liabilities</b>				
Accounts Payable & Accrued Expenses	4,248,561	3,237,502	53,956	64,734
Interest payable	143,974	167,054	76,191	85,174
Deferred revenue	1,076,330	1,110,218		
Compensation absences	1,592,607	1,488,764		
Due from Componet	-799,263	750,000	49,263	
Due to other governments	2,798,616	3,037,524		
Notes payable				
General obligation bonds	674,520	644,240	410,780	395,760
Total Current Liabilities	9,735,345	8,935,282	590,190	545,668
<b>Non Current Liabilities</b>				
General obligation bonds	20,944,289	21,261,584	10,985,980	11,396,760
Retirees Health Insurance	10,470,742	6,789,351	0	0
Landfill Closure		0	4,518,556	3,919,000
Total Noncurrent Liabilities	31,415,031	28,050,941	15,504,536	15,315,760
Total Liabilities	41,150,376	36,986,223	16,094,726	15,861,429
<b>Net Assets</b>				
Invested in Captial Assets Net of Related Debt	72,475,811	73,176,328	2,343,160	1,833,712
Restricted	2,663,238	1,643,936	478,447	342,071
Unrestricted	-5,358,424	-31,381,677	-3,616,920	-1,959,390
Total Net Assets	69,780,625	71,632,097	-795,313	216,393

**THE COUNTY'S FUNDS**

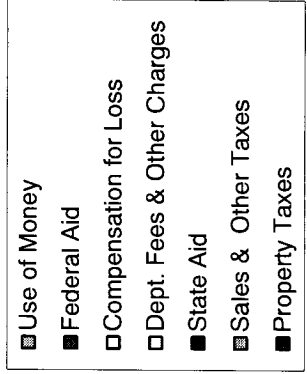
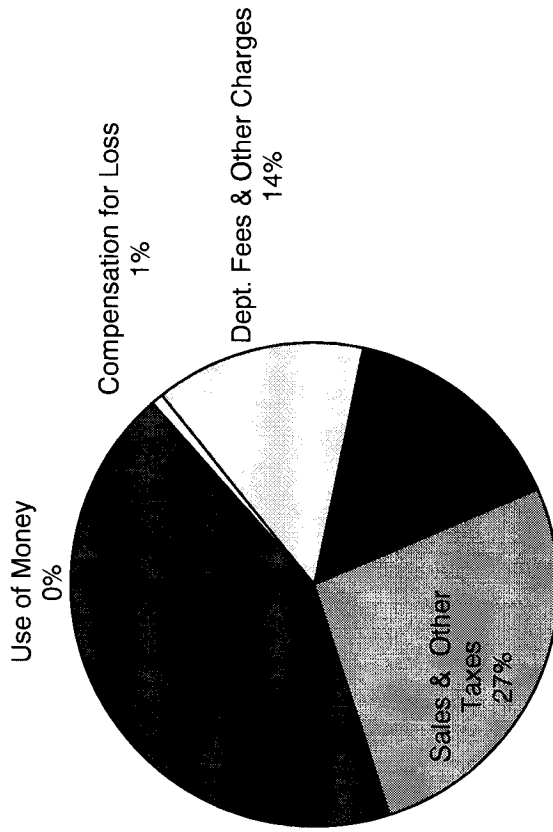
## General Governmental Functions

As the County completed the year, its governmental funds as presented in the balance Sheet on Page 15) and is reported a combined fund balance of \$13,450,621, which was increased by \$983,106 over last year's total of \$12,467,515.

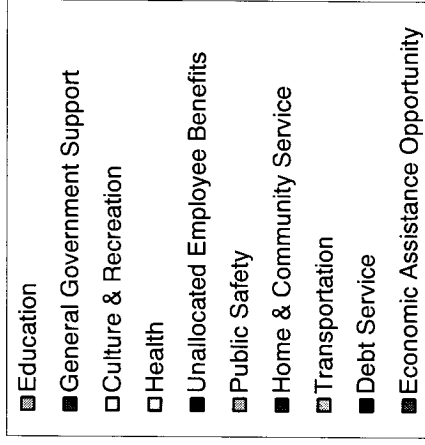
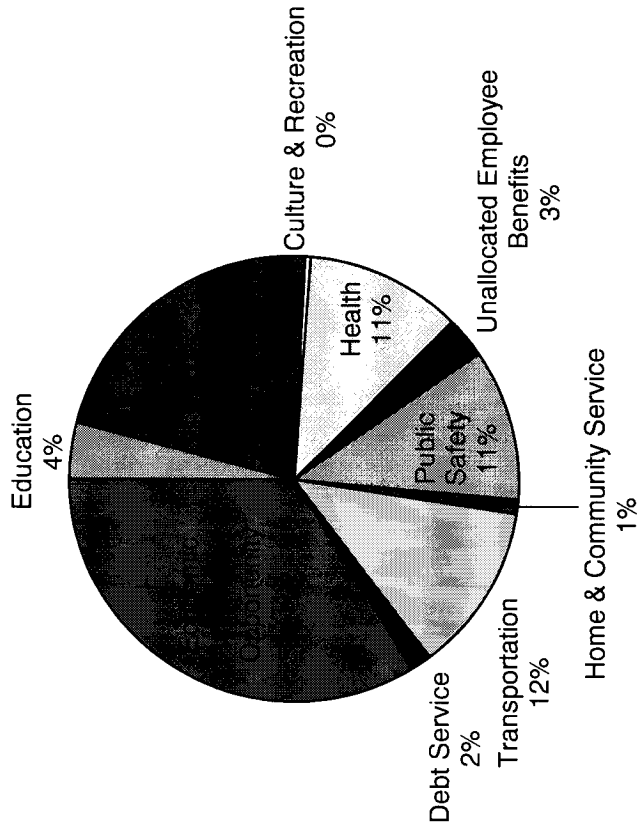
**GENERAL FUND BUDGETARY HIGHLIGHTS**

The significant variances between the originally adopted budget for the year 2010 and the final budget are outlined herein. Despite the continued exercise of fiscal restraint on spending, the County did not use a substantial amount of fund balance due to reduced spending in all areas. Cortland County continues to focus on curtailing expenditures from those appropriated. In 2010 the County spent approximately \$6.7 million less than appropriated. In the end the County minimized the intended use of fund balance by \$3,300,000.

## Governmental Funds - Revenues



## Governmental Funds - Expenditures



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The County's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget, tax rates, and fees that will be charged for the business-type activities. One of these factors was the state of the economy.

Cortland County continues to face serious financial challenges of declining revenues, mandated and non-discretionary spending requirements, increasing health and retirement costs and the continuing damage from the overall economic downturn.

The county continues to make significant efforts to reduce its expenditures and continues to re-examine the appropriateness of service levels.

The County Administrator, at direction from the County Legislature, has prepared further cuts in staffing and programs for possible implementation in 2012. The use of fund balance in the 2010 budget has prompted Administration to re-examine its State and Federal Aid and ensure that reimbursement requests are submitted timely and accurately. It has been determined that the State of New York continues to delay reimbursement to Counties, that if unrecognized, could result in cash issues. The County does not anticipate cash flow problems in 2011 or 2012. Further examination of spending and revenue trends will be required in order to eliminate the use of fund balance in future years.

The County legislature has adopted a Resolution that establishes a policy of attaining and sustaining a Fund Balance of 10% of the County's Budget, with the intention of providing for the County's operating cash needs and providing for a predictable and stable property tax rate. It will be the goal of the County to restore fund balance levels to meet this policy.

As for the GASB 45 reporting of OPEB liability, the County will continue its policy of paying for these health, dental and vision costs as they are incurred with the future goal of either reducing this liability or providing for its funding.

The 2012 budget document is currently being crafted and scheduled for release in October 2011. Preliminarily, it is anticipated that the Budget Officer's recommended Tentative 2012 Budget will contain recommendations to maintain the Real Property Tax Rate.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Martin Murphy, County Administrator and Budget Officer, 60 Central Avenue, Cortland, New York 13045.

COUNTY OF CORTLAND  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

<u>ASSETS</u>	<u>Primary</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
Current Assets		
Cash/ cash equivalents	\$ 5,050,366	\$ 460,312
Accounts receivable	726,050	48,779
Taxes Receivable (Net)	5,439,546	
State and Federal Receivables	11,320,829	
Other Receivables		
Due from Fiduciary	394,346	
Inventory	391,778	
Prepaid items	711,124	11,711
Total Current Assets	<u>24,034,039</u>	<u>520,802</u>
Noncurrent Assets		
Cash/ cash equivalents-restricted	437,123	1,038,691
Capital assets-depreciable (net)	74,861,265	13,563,620
Capital assets-land	1,221,700	176,300
Construction in progress	5,506,086	
Notes receivable	4,019,120	
Investments	851,668	
Total Noncurrent Assets	<u>86,896,962</u>	<u>14,788,611</u>
TOTAL ASSETS	<u>\$110,931,001</u>	<u>\$15,299,413</u>

<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable & accrued expenses	\$ 4,248,561	\$ 53,956
Interest payable	143,974	76,191
Deferred revenue	1,076,330	
Compensated absences	1,592,607	
Due to/from component unit	(799,263)	49,263
Due to other governments	2,798,616	
Notes payable		
General obligation bonds	674,520	410,780
Total Current Liabilities	<u>9,735,345</u>	<u>590,190</u>
Noncurrent Liabilities		
General obligation bonds	20,944,289	10,985,980
Retirees health insurance	10,470,742	
Landfill closure costs		4,518,556
Total Noncurrent Liabilities	<u>31,415,031</u>	<u>15,504,536</u>
TOTAL LIABILITIES	<u>\$41,150,376</u>	<u>\$16,094,726</u>

<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	\$ 72,475,811	\$ 2,343,160
Restricted net assets	2,663,238	478,447
Unrestricted net assets	(5,358,424)	(3,616,920)
TOTAL NET ASSETS	<u>\$ 69,780,625</u>	<u>\$ (795,313)</u>

See Notes to Financial Statements.

<u>Government</u>	<u>Component</u>
<u>Total</u>	<u>Units</u>
\$ 5,510,678	\$ 1,693,251
774,829	
5,439,546	
11,320,829	347,844
394,346	
391,778	
722,835	2,199
24,554,841	2,043,294
1,475,814	
88,424,885	
1,398,000	209,818
5,506,086	3,810,652
4,019,120	
851,668	
101,675,573	4,020,470
\$126,230,414	\$ 6,063,764
\$ 4,302,517	\$ 656,992
220,165	
1,076,330	416,463
1,592,607	
(750,000)	750,000
2,798,616	400,000
1,085,300	
10,325,535	2,223,455
31,930,269	
10,470,742	
4,518,556	
46,919,567	
\$57,245,102	\$ 2,223,455
\$74,818,971	\$ 2,215,246
3,141,685	
(8,975,344)	1,625,063
\$68,985,312	\$ 3,840,309

COUNTY OF CORTLAND  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2010

<u>FUNCTIONS</u>	<u>Expenses</u>	<u>Program Charges for Services</u>
<u>Primary Government</u>		
<u>Governmental Activities:</u>		
General Government	\$20,589,835	\$ 2,373,000
Education	3,987,121	
Public Safety	10,984,827	762,415
Health	10,998,648	5,010,262
Transportation	10,535,832	1,251,442
Economic Assistance and Opportunity	33,003,558	1,815,917
Culture and Recreation	419,643	8,101
Home and Community Service	823,351	
Employee Benefits - Unallocated	5,312,683	
Interest on Debt	1,103,091	716,524
Total Governmental Activities	<u>97,758,589</u>	<u>11,937,661</u>
<u>Business-Type Activities:</u>		
Solid Waste	<u>2,693,020</u>	<u>1,655,695</u>
Total Primary Government	<u>\$100,451,609</u>	<u>\$13,593,356</u>
<u>Component Units:</u>		
Soil and Water Conservation	\$ 1,004,850	\$ 165,640
Industrial Development	28,824	68,792
Total Component Units	<u>\$ 1,033,674</u>	<u>\$ 234,432</u>
<u>General Revenues:</u>		
Property Taxes		
Sales Taxes		
Other Taxes		
Payments to/from Primary Government		
Investment Earnings		
Gain on Sale of Assets		
Insurance Recoveries		
Total General Revenues and Transfers		
Change in Net Assets		
Net Assets, Beginning of Year		
Net Assets, End of Year		

See Notes to Financial Statements.

Net (Expense) Revenue  
and Changes in Net Assets  
Primary Government

Revenues		Business-		Total	Component Units
Operating Grants	Capital Grants	Governmental Activities	Type Activities		
\$ 535,896	\$ _____	\$ (17,680,939)		(17,680,939)	
<u>1,060,474</u>		<u>(2,926,647)</u>		<u>(2,926,647)</u>	
<u>364,778</u>		<u>(9,857,634)</u>		<u>(9,857,634)</u>	
<u>5,231,306</u>		<u>(757,080)</u>		<u>(757,080)</u>	
<u>609,182</u>	<u>2,789,597</u>	<u>(5,885,611)</u>		<u>(5,885,611)</u>	
<u>17,250,582</u>		<u>(13,937,059)</u>		<u>(13,937,059)</u>	
<u>51,000</u>		<u>(360,542)</u>		<u>(360,542)</u>	
<u>140,523</u>		<u>(682,828)</u>		<u>(682,828)</u>	
		<u>(5,312,683)</u>		<u>(5,312,683)</u>	
		<u>(386,567)</u>		<u>(386,567)</u>	
<u>25,243,741</u>	<u>2,789,597</u>	<u>(57,787,590)</u>		<u>(57,787,590)</u>	
			<u>(1,037,325)</u>	<u>(1,037,325)</u>	
<u>\$25,243,741</u>	<u>\$ 2,789,597</u>	<u>(57,787,590)</u>	<u>(1,037,325)</u>	<u>(58,824,915)</u>	
<u>\$ 625,065</u>	<u>\$ _____</u>			<u>\$ (214,145)</u>	
	<u>1,998,387</u>			<u>2,038,355</u>	
<u>\$ 625,065</u>	<u>\$1,998,387</u>			<u>1,824,210</u>	
		<u>29,937,635</u>		<u>29,937,635</u>	
		<u>24,358,609</u>		<u>24,358,609</u>	
		<u>1,861,325</u>		<u>1,861,325</u>	
		<u>(312,000)</u>	<u>12,000</u>	<u>(300,000)</u>	<u>300,000</u>
		<u>100,712</u>	<u>13,619</u>	<u>114,331</u>	<u>7,098</u>
		<u>57,732</u>		<u>57,732</u>	<u>5</u>
		<u>7,105</u>		<u>7,105</u>	
		<u>56,011,118</u>	<u>25,619</u>	<u>56,036,737</u>	<u>307,103</u>
		<u>(1,776,472)</u>	<u>(1,011,706)</u>	<u>(2,788,178)</u>	<u>2,131,313</u>
		<u>71,557,097</u>	<u>216,393</u>	<u>71,773,490</u>	<u>1,708,996</u>
<u>\$ 69,780,625</u>	<u>\$ (795,313)</u>	<u>\$ 69,985,312</u>	<u>\$3,840,309</u>		

COUNTY OF CORTLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>
Cash and Cash Equivalents	\$ 1,275,171	\$1,825,787
Cash and Cash Equivalents-Restricted	437,123	
Taxes Receivable (Net)	5,439,546	
State and Federal Receivables	10,627,002	331,473
Other Receivables		
Due from Other Funds	173,881	
Due from Other Governments	686,438	
Prepaid Assets	641,444	68,309
Investments	851,668	
TOTAL ASSETS	<u>\$20,132,273</u>	<u>\$2,225,569</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts Payable	\$2,699,161	\$ 245,225
Accrued Liabilities	468,111	60,040
Notes Payable		
Due to Other Funds		294,751
Due to Other Governments	2,735,056	
Due to Employees' Retirement System		
Deferred Revenue	2,643,736	10,758
Total Liabilities	<u>8,546,064</u>	<u>610,774</u>
Fund Balances		
Fund Balances - Reserved		
Special Trust	2,663,238	
Total Reserved	<u>2,663,238</u>	
Fund Balances - Unreserved		
Appropriated - Ensuing Year's Budget	1,835,195	662,867
Unappropriated	7,087,776	951,928
Total Unreserved	<u>8,922,971</u>	<u>1,614,795</u>
Total Fund Balances	<u>11,586,209</u>	<u>1,614,795</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$20,132,273</u>	<u>\$2,225,569</u>

See Notes to Financial Statements.

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 523,053	\$ 3,624,011
	437,123
	5,439,546
<u>362,354</u>	<u>11,320,829</u>
	173,881
	686,438
	709,753
	851,668
<u>\$ 885,407</u>	<u>\$23,243,249</u>
\$	\$ 2,944,386
<u>25,223</u>	<u>553,374</u>
<u>610,567</u>	<u>905,318</u>
	2,735,056
	2,654,494
<u>635,790</u>	<u>9,792,628</u>
	2,663,238
	<u>2,633,238</u>
	2,498,062
<u>249,617</u>	<u>8,289,321</u>
<u>249,617</u>	<u>10,787,383</u>
<u>249,617</u>	<u>13,450,621</u>
<u>\$ 885,407</u>	<u>\$23,243,249</u>

COUNTY OF CORTLAND  
RECONCILIATION OF FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

Fund Balances of Governmental Funds	\$ 13,450,621
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	81,589,051
Other prepaid assets including pension prepayments and ongoing inventories are not available to pay for current period expenditures and, therefore, are not deferred in governmental funds.	393,149
Note receivable due and payable in the future is not available to pay for current period expenditures and, therefore, is not accrued in governmental funds.	4,019,120
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Assets.	2,175,323
Certain short-term liabilities do not require current financial resources. Therefore, these liabilities are not reported as a liability in the governmental funds.	242,912
Long-term liabilities, including bonds payable and retirees health insurancare not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(32,089,551)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>69,780,625</u>

See Notes to Financial Statements.

COUNTY OF CORTLAND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2010

<u>REVENUES AND OTHER SOURCES</u>	<u>General</u>	<u>Special Revenue</u>
Revenues		
Real Property Tax	\$29,467,126	\$
Real Property Tax Items	1,124,120	
Non-Property Tax Items	25,095,814	
Departmental Income	9,674,095	
Intergovernmental Charges	45,660	867,089
Use of Money and Property	248,339	9,691
Licenses and Permits		
Fines and Forfeitures	153,833	
Sale of Property and Compensation for Loss	732,805	57,899
Miscellaneous Local Sources	454,455	91,360
Interfund Revenues		2,476,707
State Aid	13,404,495	1,463,988
Federal Aid	10,070,406	1,657,274
Total Revenues	90,471,148	6,624,008
Other Sources		
Operating Transfers		4,921,039
Proceeds of Obligations		
TOTAL REVENUES AND OTHER SOURCES	90,471,148	11,545,047
 <u>EXPENDITURES AND OTHER USES</u>		
Expenditures		
General Government Support	20,372,495	
Education	3,987,121	
Public Safety	10,694,919	
Health	10,988,161	
Transportation	1,041,561	9,794,697
Economic Assistance & Opportunity	31,415,267	1,578,485
Culture and Recreation	419,473	
Home and Community Services	1,027,873	
Employee Benefits (not allocated)	2,906,598	
Debt Service (Principal and Interest)	1,258,036	230,150
Total Expenditures	84,111,504	11,603,332
Other Uses		
Operating Transfers	5,157,634	
TOTAL EXPENDITURES AND OTHER USES	89,269,138	11,603,332
Revenues and Other Sources Over (Under)		
Expenditures and Other Uses	1,202,010	(58,285)
Fund Equity and Surplus, Beginning of Year	10,384,199	1,673,080
Adjustments:		
Prior Period Adjustments		
Fund Equity Transfers		
Fund Equity and Surplus, End of Year	\$11,586,209	\$ 1,614,795

See Notes to Financial Statements.

Capital Projects Fund	Total Governmental Funds
\$	\$ 29,467,126
	1,124,120
	25,095,814
	9,674,095
	912,749
5,212	263,242
	153,833
	790,704
64,541	610,356
	2,476,707
113,122	14,981,605
1,315,355	13,043,035
1,498,230	98,593,386
224,595	5,145,634
1,722,825	103,739,020
751,384	21,123,879
	3,987,121
	10,694,919
	10,988,161
1,129,023	11,965,281
	32,993,752
	419,473
3,037	1,030,910
	2,906,598
	1,488,186
1,883,444	97,598,280
	5,157,634
1,883,444	102,755,914
(160,619)	983 106
410,236	12,467,515
\$ 249,617	\$ 13,450,621



COUNTY OF CORTLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010

	<u>Business-Type Activities Enterprise Fund Solid Waste</u>	<u>Governmental Activities Internal Service Funds</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 460,312	\$ 1,426,355
Receivables (net of allowance)	<u>48,779</u>	<u>9,526</u>
Due from governmental funds		<u>1,175,046</u>
Prepaid expenses	<u>11,711</u>	<u>1,373</u>
Total Current Assets	<u>520,802</u>	<u>2,612,300</u>
Noncurrent Assets		
Restricted cash	<u>1,038,691</u>	
Capital assets	<u>24,804,178</u>	
Accumulated depreciation	<u>(11,064,258)</u>	
Net fixed assets	<u>13,739,920</u>	
TOTAL ASSETS	<u>\$ 15,299,413</u>	<u>\$ 2,612,300</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 44,883	\$ 436,015
Accrued liabilities	<u>9,073</u>	<u>962</u>
Accrued interest	<u>76,191</u>	
Due to governmental funds	<u>49,263</u>	
Current portion long-term debt	<u>410,780</u>	
Total Current Liabilities	<u>590,190</u>	<u>436,977</u>
Long-term debt	<u>10,985,980</u>	
Landfill closure costs	<u>4,518,556</u>	
TOTAL LIABILITIES	<u>\$ 16,094,726</u>	<u>\$ 436,977</u>
<b>NET ASSETS</b>		
Investment in Fixed Assets, net	\$ 2,343,160	\$
Unrestricted	<u>(3,616,920)</u>	<u>2,175,323</u>
Restricted	<u>478,447</u>	
TOTAL NET ASSETS	<u>\$ (795,313)</u>	<u>\$ 2,175,323</u>

See Notes to Financial Statements.

COUNTY OF CORTLAND  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities Enterprise Fund Solid Waste	Governmental Activities Internal Service Fund
Operating Revenues		
Charges for services	\$ 1,652,771	\$10,775,119
Other	2,924	260,656
Total operating revenues	1,655,695	11,035,775
Operating expenses		
Personnel services and benefits	576,406	70,271
Administrative services	7,262	361,392
Insurance	2,669	228,435
Workers compensation claims		845,546
Health insurance claims		8,150,988
Landfill operations-contractual	485,509	
Amortization of post-closure costs	599,556	
Depreciation	518,695	
Total operating expenses	2,190,097	9,656,632
Income (Loss) from operations	(534,402)	1,379,143
Nonoperating revenues (expenses)		
Transfer from governmental	12,000	
Investment income	13,619	1,240
Interest expense	(502,923)	
Total nonoperating revenues (expenses)	(477,304)	1,240
 CHANGE IN NET ASSETS	 (1,011,706)	 1,380,383
Net Assets - Beginning of Year	216,393	794,940
Net Assets - End of Year	\$ (795,313)	\$2,175,323

See Notes to Financial Statements.

COUNTY OF CORTLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities Enterprise Fund <u>Solid Waste</u>	Governmental Activities Internal <u>Service Fund</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 1,606,916	\$11,026,249
Cash payments for salaries, fringes and contracted goods and services	<u>(1,086,752)</u>	<u>(9,668,774)</u>
Net cash provided ( used ) by operating activities	<u>520,164</u>	<u>1,357,475</u>
Cash flows from investing activities:		
Investment income	13,619	1,240
Decrease in restricted cash	<u>400,504</u>	<u>          </u>
Purchase of capital assets	<u>(632,383)</u>	<u>          </u>
Net cash provided (used) by investing activities	<u>(218,260)</u>	<u>1,240</u>
Cash Flows from financing activities		
Proceeds of bonds issued	<u>77,241</u>	<u>(1,050,400)</u>
Paid to/ from governmental funds	<u>(511,906)</u>	<u>          </u>
Interest paid	<u>(395,760)</u>	<u>          </u>
Payments on bonds - principal	<u>          </u>	<u>          </u>
Net cash provided (used) from financing activities	<u>(830,425)</u>	<u>(1,050,400)</u>
Increase (Decrease) in cash and cash equivalents	<u>(528,521)</u>	<u>308,315</u>
Cash and cash equivalents at beginning of year	<u>988,833</u>	<u>1,118,040</u>
Cash and cash equivalents at end of year	<u>\$ 460,312</u>	<u>\$ 1,426,355</u>

See Notes to Financial Statements.

COUNTY OF CORTLAND  
BALANCE SHEET  
AGENCY FUND  
DECEMBER 31, 2010

Assets	
Cash and cash equivalents	<u>\$ 1,646,302</u>
Due from governmental funds	<u>                    </u>
Total Assets	<u>\$ 1,646,302</u>
Liabilities	
Agency liabilities and trusts	<u>\$ 1,251,956</u>
Due to governmental funds	<u>    394,346</u>
Total Liabilities	<u>\$ 1,646,302</u>

See Notes to Financial Statements.

COUNTY OF CORTLAND  
DISCRETELY PRESENTED MAJOR COMPONENT UNITS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	<u>Soil and Water Conservation District</u>	<u>Industrial Development Corporation</u>
<b>ASSETS</b>		
Current Assets:		
Cash/cash equivalents	\$ 1,532,026	\$ 161,225
Accounts receivables	_____	_____
Federal and state receivables	_____	347,844
Other receivables	_____	_____
Due from component units	_____	_____
Inventory	_____	_____
Prepaid items	_____	2,199
Total Current Assets	<u>1,532,026</u>	<u>511,268</u>
Noncurrent Assets:		
Deposits	_____	_____
Capital assets, depreciable-net	_____	_____
Capital assets, land	_____	209,818
Construction in progress	_____	3,810,652
Notes receivable	_____	_____
Total Noncurrent Assets	_____	<u>4,020,470</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,532,026</u>	<u>\$ 4,531,738</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	_____	656,992
Interest payable	_____	_____
Due to county	_____	750,000
Deferred revenue	416,463	_____
Compensated absences	_____	_____
Pension obligation	_____	_____
Notes payable-current	_____	_____
Due to other governments	_____	400,000
Total Current Liabilities	<u>416,463</u>	<u>1,806,992</u>
Noncurrent Liabilities		
General obligation bonds	_____	_____
Total Noncurrent Liabilities	_____	_____
<b>TOTAL LIABILITIES</b>	<u>\$ 416,463</u>	<u>\$ 1,806,992</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ _____	\$ 2,215,246
Restricted	_____	_____
Unrestricted	<u>1,115,563</u>	<u>509,500</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,115,563</u>	<u>\$ 2,724,746</u>

See Notes to Financial Statements.

Total  
Component  
Units

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\$ 1,693,251

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347,844

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2,199

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2,043,294

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209,818

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3,810,652

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4,020,470

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\$ 6,063,764

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\$ 656,992

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750,000

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416,463

---

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400,000

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2,223,455

---

\$ 2,223,455

---

\$ 2,215,246

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1,625,063

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\$ 3,840,309

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COUNTY OF CORTLAND  
DISCRETELY PRESENTED MAJOR COMPONENT UNITS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2010

	Soil and Water Conservation District	Industrial Development Corporation
Operating Revenues:		
Local appropriation	\$ 300,000	\$
Fees for services	<u>123,222</u>	<u>64,172</u>
State grants	<u>385,037</u>	
Federal grants	<u>240,028</u>	
Other grants		
Other operating revenue	<u>33,853</u>	<u>4,620</u>
Total Operating Revenues	<u>1,082,140</u>	<u>68,792</u>
Operating Expenses:		
Direct grant expenses	<u>469,862</u>	
Salaries and benefits	<u>454,809</u>	
Natural resources	<u>18,316</u>	
Depreciation		
General and administrative	<u>61,863</u>	<u>27,787</u>
Project expenses		
Total Operating Expenses	<u>1,004,850</u>	<u>27,787</u>
Operating Income (Loss)	<u>77,290</u>	<u>41,005</u>
Nonoperating Revenues (Expenses):		
Interest income	<u>6,277</u>	<u>821</u>
Gain on sale of property	<u>5</u>	
Capital grants		<u>1,998,387</u>
Other nonoperating revenue	<u>8,565</u>	
Interest expense		<u>(1,037)</u>
Net Nonoperating Revenues	<u>14,847</u>	<u>1,998,171</u>
Increase in Net Assets	<u>92,137</u>	<u>2,039,176</u>
Net Assets, Beginning of Year	<u>1,023,426</u>	<u>685,570</u>
Net Assets, End of Year	<u>\$ 1,115,563</u>	<u>\$2,724,746</u>

See Notes to Financial Statements.

Total  
Component  
Units

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\$ 300,000  

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187,394  

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385,037  

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240,028

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38,473  

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1,150,932

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469,862  

---

454,809  

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18,316

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89,650

---

1,032,637

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118,295

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7,098  

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5

---

1,998,387

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8,565

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(1,037)

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2,013,018

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2,131,313

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1,708,996

\$ 3,840,309  

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COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies

The financial statements of the County of Cortland, New York have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1989 the GASB issued Statement 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" and Statement 35 "Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities". These statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The accompanying financial statements present the financial position of the County and the various funds and fund types, the results of operations of the County and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2010, and for the year then ended. The financial statements include the various agencies and any other organizations governed by the Cortland County Legislature.

A. Financial Reporting Entity.

The County of Cortland, which was erected in 1808, is governed by County Law and other general laws of the State of New York and various local laws. The County legislature, which is the legislative body responsible for the overall operation of the County, consists of nineteen elected legislators with each member's vote weighted on the basis of population in the district represented. The Chairman of the County legislature serves as chief executive officer and the County Treasurer serves as chief fiscal officer of the County.

The County provides for the following basic services: Law enforcement, educational assistance for County residents attending community colleges, economic assistance, health and mental health services, maintenance of County roads and general administration. All government activities and functions performed for the County of Cortland are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is the County of Cortland, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2010

The decision to include a potential component unit in the County of Cortland's reporting entity is based on several criteria set forth in GASB 14 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the County of Cortland's reporting entity.

Component Units

The Cortland County Industrial Development Corporation is a Public Benefit Corporation created by state legislation to promote the economic welfare, recreation opportunities, and the prosperity of the County's inhabitants.

Members of the agency are appointed by the County Legislature. Although the County is not liable for agency bonds and notes, the County has the ability to impose its will on the organization. The operations of the Corporation are reported on the basis of accounting as described in the note below. The Industrial Development Agency is presented as a discretely presented component unit.

Based on the foregoing criteria, the accompanying combined financial statements include the Cortland County Soil and Water Conservation District as a discretely presented component unit.

The County legislature has declared the County to be a soil and water conservation district in accordance provisions of the Soil and Water Conservation District Law. Members of the Board of Directors are appointed by the County legislature and administrative costs of the district are provided primarily through County appropriations, the District does derive other revenues and performs other activities outside of the scope to the County's general oversight responsibilities. The County has the ability to impose its will on the Agency. The operation of the Agency is reported on the same basis as proprietary funds.

Effective 01/01/04, the Cortland Tobacco Asset Securitization Corporation was determined to be a component unit. Per GASB Technical Bulletin No. 2004-1, the Corporation is fiscally dependent on the County and the County votes a majority of the corporation's board. Such component unit is reported by blending with the general fund of the County since the Corporation's financing services are provided solely to the County. The Securitization Corporation is blended into the general fund operations of the County.

COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2010

2. Excluded From the Reporting Entity

The Tompkins Cortland Community College is an activity undertaken jointly with another municipality and is excluded from the financial statements. See Note 4 for additional disclosure regarding the joint venture.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a specific function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The County does not allocate general government (indirect) to other functions.

Separate financial statements are provided for governmental funds, proprietary funds, and major component units.

C. Measurement Focus, Basis of Accounting  
and Financial Statement Presentation

Government-Wide Financial Statements - The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2010

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered to be susceptible to accrual include federal grants, state grants, and sales and property taxes. Other revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within 60 days of the end of the period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at December 31, 2010, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balances.
- Debt service expenditures and claims and judgements are recorded only when payment is due.

Proprietary Funds and Component Units Financial Statements - The financial statements of the proprietary funds and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2010

D. Fund Accounting

The accounts of the County are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, and where appropriate, fund balance/retained earnings, revenues and expenditures/expenses which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are summarized by type in the financial statements. The following fund types and account groups are used:

1. Governmental Funds

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

a. General Fund - The general fund is the principal fund and includes all operations not required to be recorded in other funds.

b. Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The special revenue funds of the County include the following:

County Road Fund - used to account for expenditures for highway purposes authorized by Section 114 of the Highway Law.

Road Machinery Fund - used to account for the purchase, repair maintenance and storage of highway machinery, tools and equipment pursuant to Section 133 of the Highway Law.

Special Grant Fund - used to account for various state and federally aided programs and funds received under the Workforce Investment Act.

c. Capital Projects Fund - used to account for financial resources to be used for the acquisition of or construction of major capital facilities (other than those financed by the Proprietary Funds).

2. Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges the cost of providing goods or services to the county. The proprietary funds the county uses are internal service funds which by accounting rules are to be classified as governmental activities. The County's internal service funds consist of the health insurance fund and workers compensation fund.

COUNTY OF CORTLAND  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
DECEMBER 31, 2010

The County also uses an enterprise fund for solid waste activities including the County landfill operations and recycling activity.

3. Fiduciary Fund Type

Trust and Agency Funds - used to account for funds held in trust and subsequent distributions, transmittal or release to other governments, individuals or to other funds.

4. Component Units

These entities are legally separate from the County but are considered part of the reporting entity. These funds meet the definition of both a component unit and that of an enterprise fund as previously described.

5. Financial Statement Reporting Periods

The accompanying financial statements of the County are presented as of December 31, 2010, and for the year then ended.

E. Property Taxes

County real property taxes are levied annually no later than December 31, and become a lien on January 1. Taxes are collected during the period January 1, to no later than November 30. Taxes for county purposes apportioned to the area of the county outside the City of Auburn are levied together with taxes for town and special district purposes as a single bill. The towns and special districts receive the full amount of their levies annually out of the first amounts collected on the combined bills. The county assumes enforcement responsibility for all taxes levied in the towns. The collection of county taxes levied on properties within the City of Auburn are enforced by the city; the county receives the full amount of such taxes within the year of the levy.

Unpaid village taxes and non-city school district taxes are turned over to the county for enforcement. Any such taxes remaining unpaid at year end are relieved as county taxes in the subsequent year.

F. General Budget Policies

1. The County employs the following budgetary procedures:
  - a. No later than November 15, the budget officer submits a tentative budget to the legislature for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing them. The budget is prepared on a departments basis.

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- b. After public hearings are conducted to obtain taxpayer comments, but no later than December 20, the legislature adopts the annual budget.
- c. All revisions that alter appropriations of any department or fund must be approved by the legislature.
- d. Budgetary controls are established for the capital projects funds through resolutions authorizing individual projects.
- e. No budgets are approved for the miscellaneous special revenue fund, special grant fund, workers compensation fund and risk retention fund.
- f. No budget is established for the internal service funds which were established to account for activities of the County Motor Pool and Workers Compensation Funds. Revenues are derived from related services.

2. Budget Basis of Accounting

Except as indicated below, budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year, if any.

Budgetary control for the special grant fund is established in accordance with the applicable grant agreement which covers a period other than the County's fiscal year.

G. Joint Venture

The joint venture of the Tompkins Cortland Community College is disclosed in the footnotes to these financial statements (see note 4), and is not included in the reporting entity, (see note 1A), nor is it reported utilizing the equity method of accounting.

H. Inventories

Inventories of materials and supplies are determined by physical counts. Inventories are valued at cost on the first-in first-out basis.

I. Compensatory Absences

Compensated vacation absences are recorded as expenditures in governmental funds when they are paid. The government-wide financial statements present the cost of accumulated vacation leave as a liability. There is no liability for unpaid sick leave since the county does not have a policy to pay this amount when employees separate from service.

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J. Capital Assets

Capital assets , which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units in the financial statements. Capital assets of the primary and the component units are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress.

K. Subsequent Events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of net assets date through September 26, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

Note 2 - Budget Compliance

During the year ended December 31, 2010, the County overexpended appropriations for one line item in its budget. Debt service appropriations were overspent \$88,404.

Note 3 - Detail Notes on All Funds and Account Groups

A. Assets

1. Deposits and Investments

The County's investment policies are governed by state statutes. The County's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities,

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Custodial Credit Risk - Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United State and its agencies and obligations of the State and its municipalities and school districts.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least 105 percent of the cost of the repurchase agreement.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity. The proprietary funds Statement of Cash Flows presented on page 22 uses the direct method of reporting cash flows.

Deposits and investments at year-end were entirely covered by federal depository insurance or by collateral held by the County's custodial bank in the County's name. They consisted of:

Deposits. All deposits including certificates of deposit are carried at cost.

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	
General	\$ 1,000,000	\$ 1,000,000	Insured (FDIC)
Internal Service	250,000	250,000	Insured (FDIC)
General	712,294	800,000	Collateral Held
Special			
Revenue	1,825,787	2,000,000	Collateral Held
Capital	523,023	600,000	Collateral Held
Internal Service	1,176,355	1,300,000	Collateral Held
Solid Waste	1,499,003	1,650,000	Collateral Held
Trust & Agency	1,646,302	1,800,000	Collateral Held

2. Property Taxes

At December 31, 2010, the total real property tax assets of \$5,439,546 are offset by an allowance for uncollectable taxes of \$150. Current year returned village and school taxes of approximately \$2,493,043 are offset by liabilities to the villages and school districts which will be paid no later than April 15, 2011. The remaining portion of tax assets is offset by deferred tax revenue of \$1,812,197 (and represents an estimate of the tax liens which will not be collected within the first sixty(60) days of the subsequent year.)

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3. Restricted Cash

Restricted cash of the general fund and solid waste fund of \$437,123 and \$1,038,691, respectively, consist of cash set aside for insurance reserve, capital reserve, and landfill closure and equipment reserves.

4. Grants and Other Receivables

All receivables are shown at gross value since they are deemed to be fully collectable. At December 31, 2010, Tompkins Cortland Community College owes the County \$4,019,120 which the County advanced to pay for the College's master capital improvement plan. The College will reimburse the County over a period years based upon its chargeback income and other revenue sources with the annual payback set at \$285,000.

5. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Primary Government

	Balance Beginning of Year	Net Additions (Disposals)	Balance End of Year
<u>Governmental activities</u>			
Nondepreciable assets:			
Land	\$ 1,221,700	\$	\$ 1,221,700
Construction in progress	7,736,614	(2,230,528)	5,506,086
Total nondepreciable assets	<u>8,958,314</u>	<u>(2,230,528)</u>	<u>6,727,786</u>
Depreciable assets:			
Buildings and improvements	24,995,265		24,995,265
Machinery and equipment	19,255,951	1,425,265	20,681,216
Infrastructure	90,634,357	3,874,994	94,509,351
Total depreciable assets	<u>134,885,573</u>	<u>5,300,259</u>	<u>140,185,832</u>
Less accumulated depreciation:			
Buildings and improvements	18,650,372	403,472	19,053,844
Equipment	12,169,050	1,427,653	13,596,703
Infrastructure	30,410,657	2,263,363	32,674,020
Total accumulated depreciation	<u>61,230,079</u>	<u>4,094,488</u>	<u>65,324,567</u>
Governmental activities capital assets, net	<u>\$82,613,808</u>	<u>\$(1,024,757)</u>	<u>\$81,589,051</u>

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Business-Type Activities

Nondepreciable assets:			
Land	\$ 176,300	\$	\$ 176,300
Depreciable assets:			
Buildings and improvements	2,303,685		2,303,685
Land improvements	19,325,777	584,187	19,909,964
Equipment and fixtures	2,366,033	48,196	2,414,229
Total depreciable assets	<u>23,995,495</u>	<u>632,383</u>	<u>24,627,878</u>
Less:			
Accumulated depreciation:	<u>10,545,563</u>	<u>518,695</u>	<u>11,064,258</u>
Business-Type activities capital assets, net			
	<u>\$13,626,232</u>	<u>\$</u>	<u>113,688</u>
			<u>\$13,739,920</u>

Current period depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General government support	\$ 315,818
Public safety	380,753
Health	29,506
Transportation	3,218,389
Economic assistance & opportunity	57,411
Culture and recreation	170
Home and community service	<u>92,441</u>
Total depreciation expense - governmental activities	<u>\$ 4,094,488</u>

Note all depreciation expense in the enterprise fund is for home and community services.

Component Units	Balance Beginning of Year	Net Additions (Disposals)	Balance End of Year
Nondepreciable assets:			
Land	\$ 209,818	\$	\$ 209,818
Business Park Development	<u>-0-</u>	<u>3,810,652</u>	<u>3,810,652</u>
Depreciable assets:			
Buildings and improvements	-0-		-0-
Equipment and furniture	17,260		17,260
Total Depreciable assets	<u>17,260</u>		<u>17,260</u>
Less accumulated depreciation:	<u>17,260</u>		<u>17,260</u>
Capital assets, net	<u>\$ 209,818</u>	<u>\$</u>	<u>3,810,652</u>
			<u>\$ 4,020,470</u>

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6. Deferred Revenues

In the general fund deferred revenues consist of unearned grant revenues of \$831,539 and deferred tax revenues of \$1,812,197. In the special revenues fund it consists of \$10,758 of unearned grant revenues. In the capital projects fund deferred revenue represents interest earned but not paid over to the general fund for debt service. In the component units it represents unearned grant revenues.

B. Liabilities

1. Pension Plan

The County of Cortland participates in the New York State Employees' Retirement System (NYSRSSL). This is a cost sharing multiple public employer retirement system. 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 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, Gov. Alfred E. Smith Office Building, Albany, NY 12244.

Funding Policy

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

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

	ERS
2010	\$2,736,987
2009	\$1,895,686
2008	\$1,987,808

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

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Since 1989, The System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17 year period, with an 8.75% interest factor added. The County of Cortland has paid this liability. There is no unpaid liability at December 31, 2009.

2. Post Employment Benefits Other Than Pensions

In addition to providing pension benefits , the County also provides health care benefits and survivor benefits for retired employees and their survivors. From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. In adopting the requirements of GASB Statement No.45 beginning with the year ended December 31, 2008, the County recognizes the cost of postemployment healthcare in the year when employees services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description The County provides continuation of medical benefits coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the County. The plan is a single-employer defined benefit postemployment benefit plan (OPEB). Based on the collective bargaining agreements, the retiree and his or her beneficiaries receive this coverage for the remainder of their lives. Healthcare benefits for non-union employees are similar to those of union employees. The retirees' share of the calculated premium cost ranges from 10% to 50% depending on the retirement date and length of service. The plan does not currently issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan. For further information on the assumptions and valuation see the separate published Retiree Medical Benefit Plan report.

The number of participants as of January 1, 2010, the effective date of the biannual OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

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Active Employees	439
Retirees and survivors	<u>261</u>
Total	<u>700</u>

Funding and Accounting Policy The County pays for postemployment health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue. The accrual basis of accounting is used.

Funding Status and Funding Progress The schedule of funding progress presents multiyear (when available) trend information that is useful in determining whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liability. The following table sets forth the actuarial liability and funded status of the plan as of January 1, 2010, the latest valuation date.

Actuarial Present Value of Future Benefits

Current retired liability	\$ 29,723,788
Actives eligible to retire	12,618,157
Active employees not yet eligible	<u>23,376,015</u>
Actuarial Accrued Liability (AAL)	65,717,960
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 65,717,960</u>

Funded Ratio	-0-%
Annual Covered Payroll	Not available
Ratio of Unfunded UAAL to Covered Payroll	Not available

The following table summarizes the amortization of the unfunded actuarial liability (UAAL) as of the latest valuation date.

Annual Required Contribution (ARC)

Amortization Period	30 Years
Amortization Discount Rate	4%
2010 Amortization of UAAL	\$ 3,654,307
Normal Cost	2,113,740
Catch up for new valuation	612,630
Interest	<u>230,722</u>
2010 Annual Required Contribution	6,611,399
2009 Contribution Made	<u>(2,930,014)</u>
Increase in Net OPEB Obligation	3,681,385
Net OBEB Obligation at 12/31/09	<u>6,789,357</u>
Net OBEB Obligation at 12/31/10	<u>\$10,470,742</u>

Percent of annual OBEB cost contributed	44%
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Annual Other Postemployment Benefit Cost The County's annual Other Postemployment Benefit Cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. For the fiscal year ended December 31, 2010, the County's annual OPEB cost (expense) of \$3,681,385 is not equal to the Annual Required Contribution which is \$6,611,399. Considering the annual expense as well as the payment of current health insurance claims and premiums, which totaled \$2,930,014 for retirees and their beneficiaries, the result was an increase in the Net OPEB Obligation of \$3,631,385 for the year ended December 31, 2010.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar basis. Payroll costs were assumed to grow 4% annually.

In the January 1, 2010, actuarial valuation, the liabilities were computed using the projected unit actuarial cost method and level percent of pay amortization. The actuarial assumptions utilized a 4% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term, was considered in the selection of the 4% rate.

### 3. Compensated Absences

Pursuant to contractual agreements, the County employees are entitled to accrue sick leave and vacation leave. An individual who leaves the employ of the county is entitled to be paid for unused vacation leave. Upon retirement, the unused sick leave may be applied towards additional service credit pursuant to Sections 33 and 41J of the Retirement and Social Security Law; therefore, no payments are made for unused sick leave.

The expense for these fringe benefits is recorded in the applicable governmental fund at the time the benefit is paid. The County has computed the value of earned and unused vacation leave as of December 31, 2010 to be \$1,592,607. This represents vacation earned in 2010 but not usable until 2011 and only after the employee has rendered service to County in 2010. It is anticipated that this vacation will be used in 2010. In accordance with GASB No. 16, "Accounting for Compensated Absences", the earned and unused vacation leave has been recorded as a liability in the government-wide financial statements.

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4. Long Term Debt

a. At December 31, 2010, the total outstanding indebtedness of the County aggregated \$ 20,510,000. Of this amount, \$20,510,000 was subject to the constitutional debt limit and represented approximately 16.9% of its debt limit. Note that this calculation does not include the debt of the Tobacco Securitization Corporation. Such debt was economically defeased from proceeds of tobacco securitization.

b. Serial Bonds - The County, 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. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in full accrual financial statements.

At December 31, 2010 the detail of the County's outstanding debt is as follows:

Description	Original Issue	Interest Rate	Maturity	Outstanding 12/31/2010
Communication	\$ 500,000	3-3.7%	2012	\$ 120,000
Real Property	\$ 500,000	4.37%	2019	355,000
Solid Waste	\$ 365,000	3.5-4.0%	2011	75,000
Improvements	\$9,820,000	3.8-4.0%	2028	9,120,000
Improvements	\$11,310,000	4-4.75%	2032	<u>10,840,000</u>
<b>Total Outstanding</b>				<b>\$ <u>20,510,000</u></b>

Changes in debt for the year ending December 31, 2010, is as follows:

	Governmental Funds	Enterprise	Total
Balance 12/31/09	\$ 9,487,480	\$11,792,520	\$ 21,280,000
Principle payments	(374,240)	(395,760)	(770,000)
New Issues	-0-	-0-	-0-
Balance 12/31/10	<u>\$ 9,113,240</u>	<u>\$11,396,760</u>	<u>\$ 20,510,000</u>

Future minimum debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>
2011	815,000	867,120
2012	760,000	825,417
2013	735,000	802,960
2014	765,000	771,571
2015	795,000	738,494
2016-2020	4,520,000	3,141,676
2021-2025	5,420,000	2,095,751
2026-2030	5,210,000	869,724
2031-2032	1,490,000	74,338

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The Cortland Tobacco Asset Securitization Corporation has two different bond issues outstanding. See Note 6 for a description of these bonds.

5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure costs will be paid only near or after the date that the landfill stops accepting waste, the County has set aside a portion of landfill tipping fees to accrue funds for this future cost. At December 31, 2010 the County has accumulated \$398,024 for this future cost. At this time the County has determined the estimated cost of the landfill closure and postclosure costs to approximate \$4,518,556. Closure costs of the current operating area is \$1,691,779. Annual postclosure costs are estimated to be \$144,220 which includes operation maintenance, administration, water monitoring and leachate management. Note that the long-term liability of \$4,518,556 for the landfill closure is shown in the solid waste enterprise fund.

C. Interfund Receivables and Payables

Interfund transactions between various governmental and proprietary fund types occur during the fiscal year. Principally, these transactions arise from operating subsidies, debt service requirements, construction of capital assets, and quasi-external transactions. Transactions that have not resulted in the actual transfer of cash as of the end of the fiscal year are recorded as amounts due from (fund receivable) and due to (fund liability) other funds. For financial reporting purposes, current amounts due from and due to the same fund are offset and the net amounts are shown in the respective fund balance sheet. At the end of each fiscal year, the amount of interfund receivables is equal to the amount of interfund payables. The amounts of interfund receivables and payables were \$1,348,927 and consisted of the following interfund amounts:

	Amounts Due From Other Funds	Amounts Due To Other Funds
General Fund	\$ 173,881	\$
Capital Projects Fund		610,567
Trust and Agency Fund		394,346
Solid Waste Fund		49,263
Internal Service Fund	1,175,046	
Special Revenue Fund		294,751
Total	\$ 1,348,927	\$1,348,927

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D. Interfund Transfers

Interfund transfers for the fiscal year ended December 31, 2010 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$	\$5,157,634
Enterprise Fund	12,000	
Special Revenue Fund	4,921,039	-0-
Capital Projects Fund	224,595	-0-
Total	\$5,157,634	\$5,157,634

E. Fund Equity

Reservation of Fund Balances - Special and Trust

Fund balances are reserved for specific purposes at year end. The following details the reservations of fund balances at December 31, 2010.

	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Solid Waste</u>
Motel Occupancy Tax	\$114,685			
Stop - DWI	89,215			
Miscellaneous	3,543			
Tax Stabilization	601,298			
Insurance Reserve	253,334			
Pension	591,807			
Tobacco Corporation	825,568			
Capital Reserve	183,788			
Solid Waste Reserve				478,447
Total	\$2,663,238	\$ -0-	\$ -0-	\$ 478,447

Note 4 - Joint Venture

Tompkins-Cortland Community College

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

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The County contributed \$1,842,372 to the college in 2010 for operations. The County also contributed \$155,830 for debt service in 2010 for the College.

The County also advanced funds to the College for their campus master plan and at December 31, 2010, the College owes the County \$4,019,120. These funds will be paid in the future under a long-term payment plan.

All monies incident to college operations are received and expended by the college treasurer except for those monies relating to debt service for which the Counties, as sponsors, are responsible. At December 31, 2010 the Counties were responsible for bonded indebtedness of \$11,724,065 of which Cortland's share is \$1,758,000.

The following is an audited summary of financial information included in financial information included in financial statements issued for the college for the year ended August 31, 2010.

Total Assets	\$ 58,139,603
Total Liabilities	42,736,077
Unrestricted Net Assets	(883,355)
Other Net Assets	16,286,881
Total Revenues 2010	37,470,771
Total Expenditures 2010	39,447,337

Note 5 - Construction Commitments

At December 31, 2010 the County had the following commitments with respect to material unfinished capital projects:

<u>Capital Project</u>	<u>Estimated Remaining Financial Commitments</u>
Airport Projects	\$ 450,000
Bridge and Road Projects	<u>2,300,000</u>
Total	<u>\$ 2,750,000</u>

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NOTE 6 - Cortland Tobacco Securitization Corporation

Nature of Organization

Cortland Tobacco Asset Securitization Corporation (The Corporation) is a bankruptcy-remote local development corporation created in July, 2001 under Section 1411 of the New York State Not-for-Profit Corporation Law. The Organization was formed to raise funds by issuing bonds, use those funds to acquire rights to future proceeds from the settlement agreement with various tobacco companies payable to the County of Cortland, and remain in existence during the term of the bonds to collect the tobacco settlement proceeds and service the debt.

The Organization is an instrumentality of, but separate and apart from Cortland County, New York (the County). The Corporation has a board of directors comprised of three directors, all but one of whom shall be one or more of the following: an employee of the County, an elected official of the County or a member of the County legislature; and one director who shall be independent. Although legally separate from the County, the Corporation is a component unit of the County, and, accordingly, is included in the County's financial statements as a blended component unit.

Pursuant to the Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title, and interest in the tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgement (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and claimants. The MAS provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future right, title, and interest of the County's share were sold to the Corporation.

The purchase price of the County's future right, title, and interest in the TSRs has been financed by the issuance of serial bonds. Excess TSRs not required by the Corporation to pay various expenses, debt service, or required reserves with respect to the bonds are transferred to the CTASC Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the trust and thus the funds received by the Trust will ultimately transfer to the County. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of the debt service, operating expense, and certain other costs as set forth in the indenture. Payments of the Residual Certificate from TSR collections are subordinate to payments on the bonds and payments of certain other costs specified in the indenture.

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Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for government entities as prescribed by the Governmental Financial Accounting Standards Board as a blended component unit of the County.

Concentrations

The Corporation maintains cash in bank deposit accounts at a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The balances, at times, may exceed federally insured limits.

Cash and Cash Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco proceeds settlement collections as the collections are received. In addition, an estimated receivable is accrued at year end for estimated product sales from the preceding year.

Cash and Cash Equivalents

At December 31, 2010, the carrying amount and the bank balance on the Corporation's deposits totaled \$71,657. These monies are on deposit with an FDIC insured commercial bank located in Cortland County.

Investments

Investments are reported at fair value. The Corporation's trustee holds investments for the funds included in the financial statements. The Corporation invests in authorized investments as described in the bond resolution such as commercial paper or finance company paper; special time deposit accounts; certificates of deposit and obligations of the United States of America.

All investments are insured, registered or held by the Corporation's trustee in the Corporation's name.

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At December 31, 2010, investments are stated at fair value, which approximate cost, and consist of the following:

Cash and money market funds	\$ 74,837
Commercial paper	776,831
Total	<u>\$ 851,668</u>

Note that fair value measurements under FASB ASC 820-10, which establishes a framework for measuring fair value, is under the highest priority. Such priority is level 1 measurements, which use unadjusted quoted prices in active markets for identical assets.

#### Tobacco Settlement Proceeds Receivable

This asset represents the value of the tobacco settlement proceeds that the Organization has recognized based upon the domestic shipment of cigarettes (sales) at December 31, 2010 for the following year. The receivable is estimated based upon actual tobacco settlement payments received in 2010 since this is the method which will most closely estimate the actual payments to be received in the following year. No downgrades or trapping events occurred in 2010, so the estimated receivable appears to be reasonable.

#### Liquidity Reserve Requirement

Per the indenture, the liquidity reserve requirement is defined as the "maximum annual scheduled Debt Service on the Senior Bonds in the then current or any future Fiscal Year". The liquidity reserve requirement as calculated by the Organization's consultant is \$776,831 and the amount of the reserves at December 31, 2009 are \$776,831.

#### Restrictive Securities Held in Trust

Tobacco proceeds are held in trust by Manufacturer's and Trader's Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in a highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation.

#### Bond Trapping Reserve Requirement

In accordance with Section 6.4(d)(g) of the indenture and Section 4.1(F) and (G), and to the extent contained in "Calculations for the Tobacco Litigation Master Settlement Agreement" report, as of the next distribution date, two trapping events have occurred and neither is continuing. Consequently, the trapping reserve requirement at December 31, 2010 is \$0.

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Bonds Payable

The first bonds issued were issued on August 3, 2001 as part of the New York Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2001. Face value of the bonds issued was \$10,640,000. The bonds were sold at a discount of \$123,538, for a net issue price of \$10,516,462. The discount will be amortized over the maturity period of the bonds using the straight-line method. For the year ended 2010 the discount amortized amounted to \$4,751. The unamortized discount was \$ 85,775 for the year ended December 31, 2010. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring and from June 1, 2002 until June 1, 2027 under the super sinker payment schedule. Interest on the bonds ranges from 4.27% to 5.75%

The second bond issue was issued November 29, 2005 and are capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest and maturity rates. These bonds shall accrue interest at their stated rates from the Series 2005 Delivery Date, which interest shall accrue and not be payable, compounded semiannually, until maturity. Interest accrued for the year ended December 31, 2010 was \$227,474. During 2010 no principal payments were made and no interest payments were made. The value of the bonds increase based upon the interest accrued over the life of the bonds. The total value of the bonds issued at November 29, 2005 were \$3,099,929.

The total bonds outstanding at December 31, 2010 are as follows:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance December 31, 2010</u>
Series 2001	8/01	6/27	4.3- 5.75%	\$ 8,890,000
Series 2005	11/05	6/60	6.0- 7.15%	2,827,986
Add: Accretion				868,358
Value of 2005 Bonds				<u>3,696,344</u>
Total				<u>\$ 12,586,344</u>

Note that the defeasance of these bonds is expected to occur before the stated maturity dates based upon the expected revenue stream from the tobacco settlement proceeds. These bonds can be defeased on or after June 1, 2015. There is a prepayment premium for payment before May 31, 2016 of 102% of the accredited value and for payment between June 1, 2016 and May 31, 2017 a premium of 101% of the accredited value. After May 31, 2017 there is no premium for prepayment.

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The annual activity for 2010 is as follows:

	Series 2001	Series 2005	Total Bonds Payable
Balance 12/31/09	\$ 9,110,000	\$ 3,468,870	\$ 12,578,870
Principal Payments	(220,000)	-0-	(220,000)
Accretion, net of interest paid		227,474	227,474
Balance 12/31/10	<u>\$ 8,890,000</u>	<u>\$ 3,696,344</u>	<u>\$ 12,586,344</u>

Future debt service requirements for the 2001 bonds are shown under the Super Sinker payment schedule, which the Corporation has used since the beginning of the debt retirement. The non Super Sinker payment schedule is not shown since it has not been used. The future debt service requirements under the Super Sinker payment schedule is as follows:

	Principal	Interest	Total
2011	\$ 300,000	\$ 492,350	\$ 792,350
2012	325,000	475,638	800,638
2013	325,000	458,138	783,138
2014	340,000	440,003	780,003
2015	355,000	410,094	765,094
2016-2020	2,350,000	1,757,294	4,107,294
2021-2025	3,310,000	936,832	4,246,832
2026-2027	1,585,000	87,831	1,672,831
	<u>\$ 8,890,000</u>	<u>\$ 5,058,180</u>	<u>\$13,948,180</u>

The cost of issuing the bonds has been expensed because it provides no future benefit to the Organization. The total costs of the original bond issuance were \$337,672 and these costs were expensed in the period ending December 31, 2001. The total costs of the 2005 issue were \$165,459 and these costs were expensed in the period ending December 31, 2005.

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

	Principal	Interest	Total
Series S1 payable June 2038	\$ 713,160	\$ 2,947,369	\$ 3,660,529
Series S2 payable June 2050	730,966	9,197,816	9,928,782
Series S3 payable June 2055	649,493	16,117,354	16,766,847
Series S4A Payable June 2060	734,367	32,192,723	32,927,090
Total	<u>\$2,827,986</u>	<u>\$60,455,262</u>	<u>\$ 63,283,248</u>

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The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds assuming the projected debt service amortization:

2011	\$	242,475
2012		258,468
2013		275,525
2014		293,711
2015		312,765
2016-2020		1,904,523
2021-2025		2,623,703
2026-2030		3,616,340
2031-2035		4,987,105
2036-2040		6,181,854
2041-2045		8,024,531
2046-2050		10,540,819
2051-2055		10,710,689
2056-2060		<u>9,614,396</u>
Future Total Accretion		59,586,904
Cumulative Interest 12/31/10		868,358
Principal 12/31/10		<u>2,827,986</u>
Estimated Total Debt Service		<u>\$63,283,248</u>

Concentration of Credit Risk

During 2001, The Corporation purchased the rights to receive TSRs from the County of Cortland, New York. There are a number of risks associated with receipts of such TSRs, including litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSRs. The Corporation's financial existence is contingent upon receiving TSRs from the tobacco manufacturers.