

CITY OF OLEAN, NEW YORK

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE
FISCAL YEAR ENDED MAY 31, 2007
WITH INDEPENDENT AUDITORS' REPORT**

CITY OF OLEAN, NEW YORK

MAY 31, 2007

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INDEPENDENT AUDITORS' REPORT

**To the Mayor and Members of
The Common Council
*City of Olean, New York***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Olean, New York* for the year ended May 31, 2007, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's May 31, 2006 financial statements and, in our report dated December 8, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the financial statements, general fixed assets are reported at estimated historical costs as required by accounting principles generally accepted in the United States of America, however, a full independent appraisal of the City's fixed assets has not been performed in approximately eight years and therefore, the reasonableness of this estimate cannot be determined.

In our opinion, except for the effects of not having a current appraisal of the City's general fixed assets to substantiate estimated historical cost as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Olean, New York* as of May 31, 2007, and the results of the respective changes in financial position and the budgetary comparison for the general fund, special revenue funds, and debt service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 on our consideration of the *City of Olean, New York's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the *City of Olean, New York's* basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the *City of Olean, New York*. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations" and is also not a required part of the basic financial statements of *City of Olean, New York*. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 20, 2007**

I. Discussion and Analysis

The following is a discussion and analysis of the *City of Olean, New York's* (the City) financial performance for the fiscal year ended May 31, 2007. The section is a summary of the City's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the City's financial statements, which immediately follows this section.

II. Financial Highlights

The following items are the financial highlights experienced by the City of during the fiscal year ended May 31, 2007:

- Overall net assets of the City increased approximately \$1,053,000 during the 2006-07 fiscal year.
- Total net assets of the City as of May 31, 2007 amounted to approximately \$8,888,000.
- The City's total revenue increased approximately 14% from \$18,066,000 during the fiscal year ended May 31, 2006 to \$20,633,000 during the fiscal year ended May 31, 2007. This increase was primarily the result of an increase in real property tax revenue and increases in departmental income primarily related to water and sewer usage fee increases.
- The City's total expenses increased approximately 2% from \$19,204,000 during fiscal year ended May 31, 2006 to \$19,581,000 during the fiscal year ended May 31, 2007. This increase was primarily related to a retirement incentive that was offered to various employees of the City. This increase was partially offset by decreases in other areas resulting from budget constraints and restructuring. Due to anticipated difficulties and contractual wage increases in the budget, department heads were requested to reduce costs. These cost reduction measures were met in a number of ways, which include delaying some capital purchases and negotiations with all bargaining units to delay the contractual raises until the next budget year.
- The City incurred capital costs in the amount of approximately \$1,340,000 primarily related to the replacement of the City's Main Street Bridge and airport building renovations.
- The general fund reported an overall deficit fund balance of approximately \$2,421,000 as of May 31, 2007.

III. Overview of the Financial Statements

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City.

A. Reporting the City as a Whole (Government-wide Financial Statements):

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

1. Statement of Net Assets

The Statement of Net Assets (Page 11) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled) of the City. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

2. Statement of Activities

The Statement of Activities (Page 12) shows the amounts of program-specific and general revenue used to support the City's various functions.

The Statement of Net Assets and Statement of Activities divide the activities of the City into two categories: governmental activities (the City's functions, including general governmental support, public safety, transportation, culture and recreation, etc.; property taxes, non-property taxes (sales taxes) and state and federal revenue usually support most of these functions) and proprietary activities. The City only had governmental activities during the current fiscal year.

III. Overview of the Financial Statements
(continued)

A. *Reporting the City as a Whole (Government-wide Financial Statements) (continued):*

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the City's overall health, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of buildings and other facilities.

B. *Reporting the City's Most Significant Funds (Fund Financial Statements):*

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or major funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the City's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

III. Overview of the Financial Statements
(continued)

B. *Reporting the City's Most Significant Funds (Fund Financial Statements)(continued):*

The City has two kinds of funds:

1. Governmental Funds

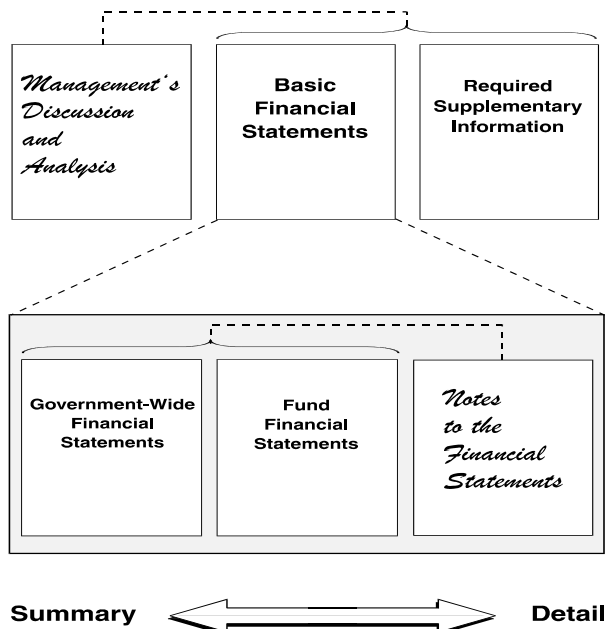
Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

Figure A-1 - Major Features of the Government-Wide Statements and Fund Financial Statements

	Fund Financial Statements		
	Government-wide	Governmental Funds	Fiduciary Funds
Scope	Entire government (except fiduciary funds)	The activities of the government that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the government administers resources on behalf of someone else.
Required financial statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, all assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 - Required Components of the City's Annual Financial Report



III. Overview of the Financial Statements
(continued)

B. Reporting the City's Most Significant Funds
(Fund Financial Statements)(continued):

2. Fiduciary Funds

The City is the trustee, or fiduciary, for assets that belong to others. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

IV. Financial Analysis of the City as a Whole

Net Assets

The City's total reporting entity net assets increased \$1,053,000 or 13%. The components of net assets include: invested in capital assets, net of related debt of \$12,140,000; restricted net assets of \$29,000; and unrestricted net assets deficit of \$3,281,000 as of May 31, 2007.

IV. Financial Analysis of the City as a Whole
(continued)

Changes in Net Assets

The City's total government-wide revenue was \$20,633,000. Approximately 23%, 21% and 44% of total revenue is derived from the property taxes, non-property taxes and program revenue, respectively. The remaining 12% comes from state sources, use of money and property, sales of property and compensation for loss and other revenue sources.

The total cost of all programs and services of the City was \$19,581,000 for the fiscal year ended May 31, 2007. The City's expenses cover a range of services, with 12%, 29%, 10% and 22% related to general government support, public safety, transportation and employee benefits, respectively. Figure A-4 through Figure A-6 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

Revenue

- Property tax revenue represents approximately 23% of the City's total revenue for governmental activities. Total property taxes increased approximately \$483,000 or 11% during the current fiscal year. This increase was primarily the result of a 14% increase in the tax rate for the 2006-07 fiscal year, which was partially offset by a decrease in the tax roll of approximately \$898,000.
- One of the City's most significant general revenue is non-property taxes, which represents \$4,238,000 or 21% of total governmental revenue. Total non-property taxes increased approximately \$128,000 or 3% as a result of an increase in sales tax revenue, utilities gross receipts tax and franchise taxes.
- The City's program revenue totaled approximately \$9,112,000. Program revenue consists of charges for services in the amount of \$7,172,000, which is primarily related to revenue received in the special funds of approximately \$5,651,000. These revenues relate to water and sewer usage fees and program income related to the City's three community development programs. The City received operating grants in the amount of \$293,000, which relate to grants totaling \$174,000 for public safety (court security and facility aid), transportation grant of \$84,000 (NYS Mass Transit) and cultural and recreation grants of \$35,000 (youth bureau) and capital grants and contributions in the amount of \$1,647,000, which consists of grants related to the City's capital projects funds.

IV. Financial Analysis of the City as a Whole
(continued)

Revenue (continued)

These projects include federal and state grants for bridge replacement (NYS DOT and Marchesilli), airport improvements (FAA and NYS DOT) and the CHIPS program (NYS DOT and Marchesilli). Total charges for services increased approximately 7% during the current fiscal year as a result of increases in water and sewer revenue related to an increase in related rates. Total operating grants increased approximately 72% during the current fiscal year, as a result of a grant from FEMA for improvements to the ventilation system for the Olean Fire Department. Lastly, capital grants and contributions increased approximately 183% during the current year, which was primarily related to increased aid for the repair of the Main Street Bridge.

Expenses

Figure A-6 presents the cost of each of the expenditure-types, which include; general governmental support, public safety, health, transportation, culture and recreation, economic development, home and community services, employee benefit and debt service. The net cost shows the financial burden that was placed on the City's taxpayers and NYS by each of these functions. Total costs of the City's governmental activities were approximately \$19,581,000.

- The City's general governmental support was approximately \$2,340,000 or 12% of expenditures. These expenditures consist primarily of the City's main support service departments such as central garage, buildings department, clerk's office, public works department, outside professional fees and related fees and the City's general liability insurances. Total general governmental support expenses decreased approximately 7% partially as a result of delaying the purchase of items due to a spending "slow down". Also, employees had negotiated raises to take effect at the beginning of the year, however, the Mayor negotiated with the Unions to hold the increases until the following fiscal year.
- The City's public safety costs were approximately \$5,588,000 or 29% of total expenditures. These expenditures consist primarily of costs attributable to the fire and police departments. Total costs for public safety increased less than 1% during the current year, as costs remained relatively constant.

IV. Financial Analysis of the City as a Whole
(continued)

Expenses (continued)

- Transportation costs of the City were approximately \$1,892,000 or 10% of total expenditures. These expenditures encompass the street maintenance department including maintenance and snow removal, the airport department and street lighting expenditures. Total transportation costs increased approximately 10% during the current year as a result of an increase in capital fund transportation costs, including resurfacing of various roads. CHIPS funding decreased approximately \$22,000 as compared the previous fiscal year and the reconstruction and repaving of City streets that was undertaken in the previous fiscal year, did not occur in the current fiscal year. Transportation costs in the general fund increased relative to the revenue received for transportation.
- The City's culture and recreation costs were approximately \$1,062,000 or 18% of total expenditures. These expenditures consist primarily of costs of maintaining the City's parks, playgrounds and recreational facilities and programs. Total expenses for culture and recreation decreased approximately 11% which was primarily related to a reduction in summer and winter part-time recreation staff and a reduction due to a cut in grant funds for the youth programs.
- Home and community services costs were approximately \$3,590,000. These expenditures are related to costs of the water and sewer funds and costs related to homebuyer and other community development projects. Total home and community services expenditures decreased 4% during the current year, which was primarily related to decreased spending in the water and sewer funds consistent with the spending "slow down".
- Employee benefit costs were approximately \$4,329,000 or 22%. These expenditures consist primarily of social security benefits, health insurance benefits, workmen's compensation benefits and pension costs. Total employee benefit costs increased approximately 17% during the current fiscal year primarily as a result of the retirement incentive offered by the City. The City also experienced increases in health care, which were offset by reductions in the cost of worker's compensation.
- During the current fiscal year, the City had debt service costs of \$672,000. These costs were primarily related to the current fiscal year interest payments on long-term debt for the new water treatment facility and the City's two new reservoirs. These costs also include interest payments on serial bonds for pension costs and other city long-term debt.

Figure A-3 – Condensed Statement of Net Assets

<i>City of Olean, New York</i>			
<i>Condensed Statement of Net Assets</i>			
<i>As of May 31,</i>			
<i>(in thousands of dollars)</i>			
	2007	2006	Change
Assets			
Current and other assets	\$ 9,184	\$ 5,827	58%
Capital Assets	31,448	31,342	0%
Total assets	\$ 40,632	\$ 37,169	9%
Liabilities			
Other liabilities	\$ 6,080	\$ 6,699	-9%
Long-term debt outstanding	25,664	22,635	13%
Total liabilities	31,744	29,334	8%
Net Assets			
Invested in capital assets, net of related debt	12,140	10,988	10%
Restricted	29	27	8%
Unrestricted (deficit)	(3,281)	(3,180)	3%
Total net assets	8,888	7,835	13%
Total liabilities and net assets	\$ 40,632	\$ 37,169	9%

Figure A-4 – Condensed Statement of Activities

<i>City of Olean, New York</i>			
<i>Condensed Statement of Activities</i>			
<i>For the Year Ended May 31,</i>			
<i>(in thousands of dollars)</i>			
	2007	2006	Change
Revenue			
Program Revenue			
Charges for services	\$ 7,172	\$ 6,730	7%
Operating grants	293	171	72%
Capital grants & contributions	1,647	582	183%
General Revenue			
Real property taxes	4,820	4,337	11%
Special assessment tax - real property	3	5	-48%
Real property tax items	190	176	8%
Non-property tax items	4,238	4,110	3%
Use of money and property	61	79	-22%
Sales of property & compensation for loss	-	(3)	-100%
Miscellaneous local sources	-	16	-100%
State aid	2,209	1,863	19%
Total revenue	20,633	18,066	14%
Expenses			
General government support	2,340	2,511	-7%
Public safety	5,590	5,573	0%
Health	90	87	3%
Transportation	1,892	1,716	10%
Economic development	16	16	1%
Culture and recreation	1,062	1,191	-11%
Home and community services	3,590	3,753	-4%
Employee benefits	4,329	3,708	17%
Debt service	672	649	4%
Total expenses	19,581	19,204	2%
Change in net assets	\$ 1,053	\$ (1,138)	

Figure A-5 – Governmental Sources of Revenue

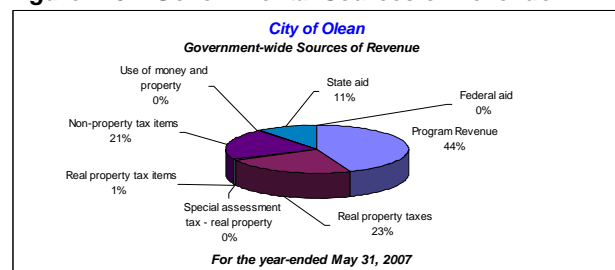
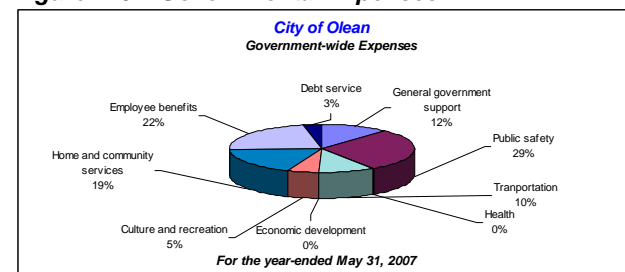


Figure A-6 – Governmental Expenses



V. Financial Analysis of the City's Funds

It is important to note that variances between years for the governmental fund financial statements (Balance Sheets and Statement of Revenue, Expenditures and Changes in Fund Equity) are not the same as variances between years for the government-wide financial statements (Statement of Net Assets and Statement of Activities). The City's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting, while the statement of net assets are presented on the full accrual method of accounting. Therefore, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

General Fund

- The City's general fund expenditures exceeded its revenues by approximately \$141,000 during the year ended May 31, 2007.
- The City's general fund undesignated, unreserved deficit fund balance equated to approximately \$2,480,000 as of May 31, 2007.
- The City had a reserve for encumbrances as of May 31, 2007, which approximated \$59,000.
- The total assets for the City's general fund were \$7,921,000 which increased approximately \$2,958,000 during the current year, primarily related to an increase in cash related to a revenue anticipation note issued and outstanding as of May 31, 2007. The City's general fund liabilities as of May 31, 2007 were \$10,341,000 which increased approximately \$3,097,000 during the current fiscal year, primarily related to the revenue anticipation note which was outstanding as of May 31, 2007.

V. Financial Analysis of the City's Funds (continued)

General Fund (continued)

- The City's total revenue in the general fund increased approximately \$1,024,000 or 8% during the current year as a result of increases in revenue associated with the real estate taxes, sales tax, ambulance fees and revenue sharing. Total expenditures in the general fund decreased approximately \$283,000 or 2% which was primarily related to reduced spending and reduction in staff in the clerk, buildings, street maintenance, personnel and adult recreation departments. These reductions were partially offset by increased spending associated with health care.

Special Revenue Fund

- The City's special revenue consisted of the following funds; water fund, sewer fund, revolving loan fund, housing fund and first time homebuyers' fund.
- Current year revenue and other sources in the special revenue fund was \$5,765,000 which increased \$535,000 primarily related to increased revenues in the water fund (\$248,000) and in the sewer fund (\$452,000). These increases were directly related to increases of water and sewer rates during the current fiscal year. Total expenditures and other uses were \$5,423,000 which remained relatively constant with the prior year.

Debt Service Fund

- The City's current fiscal year revenue and other sources were \$1,392,000 which decreased approximately \$156,000 and was primarily related to transfers for principal and interest payments on the City's bonds for the construction of a new water treatment plant and two new reservoirs. Other transfers reflected as revenue were for prior serial bonds for capital improvements and purchases and pension costs. Expenditures during the current year amounted to \$1,393,000 which decreased approximately \$163,000. The approximate difference of \$1,000 between revenue and expenditures relate to the use of reserves in the debt service fund.

Capital Projects Fund

- During the current year, the City incurred total costs in the capital projects fund in the amount of \$1,740,000. Such costs were primarily related to costs associated with the City's replacement of its Main Street Bridge (\$1,103,000), improvements to the airport (\$247,000) and the City's CHIPS program (\$202,000).

VI. General Fund Budgetary Highlight

As shown in figure A-7, over the course of the year, the City makes many budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$197,000 below the revised budget. The most significant variance was in the areas of general governmental support and culture and recreation which totaled approximately \$196,000 and \$118,000, respectively, below that budgeted. On the other hand, resources available for appropriations were approximately \$323,000 below the final budgeted amount. Significant variance of revenue items consisted of state aid and intergovernmental charges that were approximately \$128,000 and \$87,000, respectively, below that budgeted.

VII. Capital Asset and Debt Administration

Capital Assets

As of May 31, 2006, the City had a net investment of \$31,448,000 in a broad range of capital assets, including reconstruction projects, transportation vehicles and other equipment. Capital additions made during the fiscal year ended May 31, 2007, totaled approximately \$1,340,000 and consisted primarily of costs associated with the Main Street Bridge project. More detailed information about the City's capital assets is presented in the notes of the financial statements.

Long-term Debt

As of May 31, 2007, the City had approximately \$25,664,000 in serial bonds, EFC notes, revenue anticipation notes, bond anticipation notes, compensated absences, retirement incentives, environmental liability and other long-term debt outstanding.

Figure A-7 – General Fund Budget vs Actual

<i>City of Olean, New York</i>			
<i>Budget vs Actual - General Fund</i>			
<i>For the Year Ended May 31, 2007</i>			
<i>(in thousands of dollars)</i>			
Revenue	Revised Budget	Actual	Difference
Real property taxes	\$ 4,820	\$ 4,820	\$ -
Special assessment tax - real property	12	3	(9)
Real property tax items	170	190	20
Non-property tax items	4,161	4,238	77
Departmental income	1,139	1,086	(53)
Intergovernmental charges	225	138	(87)
Use of money and property	50	68	18
Licenses and permits	67	54	(13)
Fines and forfeitures	173	110	(63)
Sales of property and comp for loss	19	10	(9)
Miscellaneous local sources	1	-	(1)
State aid	2,510	2,382	(128)
Federal aid	120	120	-
Transfer from other funds	75	-	(75)
Total revenue	<u>\$ 13,542</u>	<u>\$ 13,219</u>	<u>\$ (323)</u>
Expenses			
General government support	\$ 2,205	\$ 2,009	\$ 196
Public safety	5,197	5,227	(30)
Health	96	84	12
Transportation	1,110	1,150	(40)
Economic development	15	15	-
Culture and recreation	1,099	981	118
Home and community services	125	103	22
Employee benefits	3,045	3,121	(76)
Debt service	25	25	-
Transfer to other funds	639	644	(5)
Total expenses	<u>\$ 13,556</u>	<u>\$ 13,359</u>	<u>\$ 197</u>

VIII. Factors bearing on the City's Future

At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The City has seen a significant increase in its revenues as compared to the previous fiscal year. The City will receive an increase in revenue sharing aid from New York State for the 2008 fiscal year. Also, for the 2008 fiscal year, the City increased taxes by nearly 19%.
- Because the City's assessed valuations have continued to decrease, along with the City's state equalization rate, increases in taxes have not kept up in proportion with these changes. This along with stagnant revenues and increases in expenses has forced the City to use its surpluses to balance the budget and further has resulted in the deficits as discussed above. Subsequent to the current fiscal year, the Administration has begun the process to revalue all properties in the City for a 100% assessment. The Administration feels that this reassessment will result in a fair and equitable taxation of all properties and therefore, the City will not have to rely on the state issuing an equalization rate.

VIII. Factors bearing on the City's Future

- The City has also seen its industrial base decrease, which affects employment in the area. Manufacturing is moving production overseas and therefore, either closing plants or reducing employees. Again, this is not unique to the *City of Olean, New York*. The northeastern part of the country is experiencing the same situations. The State Comptroller's Office has compiled a number of reports on this situation. Decreased employment has a trickle down effect, which causes reduction in new housing construction, a decrease in house sales and values and in population.
- Due to State mandated pension contributions, the City has seen its pension costs remain high. Costs for the last four fiscal years were in excess of one million dollars. The City does not expect nor has it been informed by the State that the contributions for its pension plans will decrease significantly in the next few years. This with other factors has put a substantial strain on the City's finances.
- The City has had to incur substantial debt relative to the construction of a new water treatment plant and two new reservoirs. Because of the City's aging infrastructure related to its wastewater treatment plant and intake system, potentially the City will need to incur more debt for these capital projects. Therefore, with the State and outside auditors continued recommendations, the funds that mainly support this long-term debt (water and sewer) require to be self-sufficient. In addition, recommendations have been made that a surplus in these funds be established to cover prior years' deficits and for future system maintenance and improvements.
- Due to aggressive revenue and expense budgeting, the City has operated at a deficit in the General, Water, and Sewer funds for the past several years. While operating in a deficit, the City eliminated all outstanding fund balance and created negative fund balance in all three funds. On September 27, 2007, the City issued \$4,300,000 in Bond Anticipation Notes, under special Home Rule legislation. Once these notes are converted to long-term, the negative fund balances in the fund financial statements will be eliminated.

IX. Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the City and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Ms. Janet Jones, City Auditor
City of Olean, New York
Municipal Building
Olean, New York

CITY OF OLEAN, NEW YORK
STATEMENTS OF NET ASSETS
AS OF MAY 31,

Assets	2007	2006
Cash on hand	\$ 1,348	\$ 1,348
Cash on deposit		
Regular accounts	5,934,746	2,784,310
Receivables		
Refuse and garbage	1,383	2,000
Special assessment	15,542	17,720
Accounts receivable	1,693,117	1,446,815
Due from fiduciary funds	-	8,960
State and federal	822,239	905,417
Due from other governments	111,742	125,206
Revolving loans receivable	411,933	351,403
First Time Homebuyers loans receivable	167,824	146,736
Rehabilitation loans receivable	24,601	36,984
Capital assets, net	31,447,772	31,341,862
Total assets	<u>\$ 40,632,247</u>	<u>\$ 37,168,761</u>
 Liabilities		
Payables		
Accounts payable	\$ 419,177	\$ 818,049
Accrued liabilities	998,929	776,375
Due to other funds	44,247	-
Other liabilities	212,938	1,357,816
Deferred revenue	4,405,105	3,746,310
Long-term liabilities		
Portion due or payable within one year		
Due to other governments	23,050	22,821
Revenue anticipation notes payable	3,800,000	-
Bond anticipation notes payable	2,270,000	3,741,000
NYS EFC notes	265,000	265,163
Serial bonds payable	819,000	577,453
Environmental liability	225,000	225,000
Retirement incentive	131,922	-
Compensated absences	170,000	170,000
Portion due or payable after one year		
Due to other governments	165,899	188,949
NYS EFC notes	6,515,000	6,780,000
Serial bonds payable	9,439,000	8,990,000
Environmental liability	1,018,000	1,058,000
Retirement incentive	410,383	-
Compensated absences	411,796	616,605
Total liabilities	<u>31,744,446</u>	<u>29,333,541</u>
 Net Assets		
Investment in capital assets, net of related debt	12,139,772	10,988,246
Restricted for		
Reserved for debt	29,227	27,215
Unrestricted:		
Designated	64,370	33,775
Undesignated (deficit)	(3,345,568)	(3,214,016)
Total net assets	<u>8,887,801</u>	<u>7,835,220</u>
Total liabilities and net assets	<u>\$ 40,632,247</u>	<u>\$ 37,168,761</u>

See accompanying independent auditors' report and notes to the financial statements.

CITY OF OLEAN, NEW YORK
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31,

	Program Revenues				2007	2006
	Expenses	Charges for Services	Operating Grants	Capital Grants & Contributions	Net (Expense) Revenue and Net Assets	Net (Expense) Revenue and Net Assets
Functions/Programs						
General government support	\$ 2,340,406	\$ 243,860	\$ -	\$ 4,115	\$ (2,092,431)	\$ (2,191,207)
Public safety	5,590,081	168,974	174,717	15,773	(5,230,617)	(5,191,217)
Health	89,691	581,478	-	-	491,787	435,366
Transportation	1,891,731	321,187	84,140	1,577,161	90,757	(1,035,260)
Economic development	16,233	9,857	-	-	(6,376)	(6,332)
Culture and recreation	1,061,711	200,725	34,518	-	(826,468)	(975,363)
Home and community services	3,590,271	4,327,988	-	50,277	787,994	573,575
Employee benefits	4,328,860	1,197,918	-	-	(3,130,942)	(2,737,809)
Debt service - interest & issuance fees	671,866	119,900	-	-	(551,966)	(592,310)
Total functions and programs	<u>\$ 19,580,850</u>	<u>\$ 7,171,887</u>	<u>\$ 293,375</u>	<u>\$ 1,647,326</u>	<u>(10,468,262)</u>	<u>(11,720,557)</u>
General Revenues						
Real property taxes					4,820,419	4,337,019
Special assessment tax - real property					2,624	4,977
Real property tax items					189,837	175,799
Non-property tax items					4,237,991	4,110,085
Use of money and property					61,333	78,564
Sales of property and compensation for loss					-	(2,981)
Miscellaneous local sources					-	15,581
State aid					2,208,639	1,863,008
Total general revenues					<u>11,520,843</u>	<u>10,582,052</u>
Change in net assets					1,052,581	(1,138,505)
Net assets - beginning of year					7,835,220	8,973,725
Net assets - end of year					<u>\$ 8,887,801</u>	<u>\$ 7,835,220</u>

See accompanying independent auditors' report and notes to the financial statements.

**CITY OF OLEAN, NEW YORK
COMBINED BALANCE SHEETS
ALL GOVERNMENTAL FUNDS
AS OF MAY 31,**

	Major Funds				Non-Major Other Special Revenue and Capital Project Funds	2007 (Memo only) Total	2006 (Memo only) Total
	General	Water	Sewer	Debt Service			
Assets							
Cash on hand	\$ 1,308	\$ 40				\$ 1,348	\$ 1,348
Cash on deposit							
Regular accounts	5,153,081	120,060	\$ 77,063	\$ 12,574	\$ 571,968	5,934,746	2,784,310
Receivables							
Refuse and garbage	1,383					1,383	2,000
Special assessment	15,542					15,542	17,720
Accounts receivable	243,306	853,268	596,543			1,693,117	1,446,815
Due from other funds	13,273			21,653	2,677,542	2,712,468	3,245,636
Advances to other funds	1,843,884					1,843,884	1,383,639
State and federal	648,951				173,288	822,239	905,417
Revolving loans receivable					411,933	411,933	351,403
First Time Homebuyers loans receivable					167,824	167,824	146,736
Rehabilitation loans receivable					24,601	24,601	36,984
Total assets	\$ 7,920,728	\$ 973,368	\$ 673,606	\$ 34,227	\$ 4,027,156	\$ 13,629,085	\$ 10,322,008
Liabilities							
Accounts payable	\$ 136,621	\$ 51,301	\$ 56,644		\$ 174,611	\$ 419,177	\$ 818,049
Accrued liabilities	818,032	66,197	58,300		100,000	1,042,529	831,375
Due to other funds	1,620,331	21,653	-		1,114,731	2,756,715	3,236,676
Advances from other funds		953,063	890,821		-	1,843,884	1,383,639
Due to employee retirement system	156,266	16,667	13,667		-	186,600	1,355,292
Other liabilities	9,274				17,064	26,338	2,524
Deferred revenue	3,800,750				604,355	4,405,105	3,746,310
Revenue anticipation notes payable	3,800,000					3,800,000	-
Bond anticipation notes payable					2,270,000	2,270,000	3,741,000
Total liabilities	10,341,274	1,108,881	1,019,432	-	4,280,761	16,750,348	15,114,865
Fund Equity							
Reserved for encumbrances	59,370	-	-			59,370	13,675
Reserved for debt				\$ 29,227		29,227	27,215
Unreserved:							
Designated for subsequent year's expenditures	-			5,000		5,000	20,100
Undesignated (deficit)	(2,479,916)	(135,513)	(345,826)			(2,961,255)	(3,197,087)
Undesignated (deficit) reported as nonmajor:							
Special revenue funds					79,310	79,310	144,573
Capital project funds					(332,915)	(332,915)	(1,801,333)
Total fund equity (deficit)	(2,420,546)	(135,513)	(345,826)	34,227	(253,605)	(3,121,263)	(4,792,857)
Total liabilities and fund equity	\$ 7,920,728	\$ 973,368	\$ 673,606	\$ 34,227	\$ 4,027,156	\$ 13,629,085	\$ 10,322,008

CITY OF OLEAN, NEW YORK
COMBINED STATEMENTS OF REVENUE, EXPENDITURES
AND CHANGES IN FUND EQUITY -
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED MAY 31,

Revenue	Major Fund				Non-major Other Special Revenue and Capital Project Funds	2007 (Memo only) Total	2006 (Memo only) Total
	General	Water	Sewer	Debt Service			
Real property taxes	\$ 4,820,419					\$ 4,820,419	\$ 4,337,019
Special assessment tax - real property	2,624					2,624	4,977
Real property tax items	189,837					189,837	175,799
Non-property tax items	4,237,991					4,237,991	4,110,085
Departmental income	1,086,278	\$ 3,025,551	\$ 2,162,567		\$ 134,383	6,408,779	5,598,742
Intergovernmental charges	137,626		188,937			326,563	464,375
Use of money and property	67,412			\$ 60	3,014	70,486	95,219
Licenses and permits	53,643					53,643	64,338
Fines and forfeitures	110,319					110,319	150,220
Sale of property & compensation for loss	10,375	26,882				37,257	79,959
Miscellaneous local sources	-				174,700	174,700	54,145
State aid	2,382,014		5,509		386,637	2,774,160	2,323,769
Federal aid	120,000				1,306,653	1,426,653	606,491
Total revenue	13,218,538	3,052,433	2,357,013	60	2,005,387	20,633,431	18,065,138
Expenditures							
General government support	2,009,270	73,069	67,000	19,299	4,331	2,172,969	2,716,716
Public safety	5,227,334				16,600	5,243,934	5,239,346
Health	83,647				-	83,647	81,604
Transportation	1,150,312				1,659,870	2,810,182	2,266,747
Economic development	15,000					15,000	15,000
Culture and recreation	981,267				-	981,267	1,156,717
Home and community services	102,420	1,427,043	1,415,657		465,302	3,410,422	4,037,073
Employee benefits	3,121,206	465,164	404,994			3,991,364	3,859,596
Debt service:							
Principal	22,818			842,616	-	865,434	1,018,267
Interest	40,148	1,715	74,736	530,406	-	647,005	642,390
Total expenditures	12,753,422	1,966,991	1,962,387	1,392,321	2,146,103	20,221,224	21,033,456
Excess (deficiency) of revenue over expenditures	465,116	1,085,442	394,626	(1,392,261)	(140,716)	412,207	(2,968,318)
Other financing sources (uses)							
Bad debt expense					(8,613)	(8,613)	(58,648)
BANS redeemed from appropriations	(85,000)	(28,000)	(90,000)		203,000	-	-
Proceeds from issuance of serial bonds net of bond issuance fees					1,268,000	1,268,000	-
Operating transfers in				1,392,243	90,868	1,483,111	1,598,061
Operating transfers out	(520,649)	(934,640)	(20,368)	(869)	(6,585)	(1,483,111)	(1,598,061)
Total other financing sources (uses)	(605,649)	(962,640)	(110,368)	1,391,374	1,546,670	1,259,387	(58,648)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(140,533)	122,802	284,258	(887)	1,405,954	1,671,594	(3,026,966)
Fund equity (deficit), beginning of year	(2,280,013)	(258,315)	(630,084)	32,315	(1,656,760)	(4,792,857)	(1,765,891)
Residual equity transfer	-	-	-	2,799	(2,799)	-	-
Fund equity (deficit), end of year	\$ (2,420,546)	\$ (135,513)	\$ (345,826)	\$ 34,227	\$ (253,605)	\$(3,121,263)	\$(4,792,857)

See accompanying independent auditors' report and notes to financial statements.

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2007

	Original Budget	Amended Budget	Actual	Encumbrances	Favorable (Unfavorable)
Revenue					
Real property taxes	\$ 4,820,419	\$ 4,820,419	\$ 4,820,419	\$ -	\$ -
Special assessment tax - real property	13,179	11,555	2,624		(8,931)
Real property tax items	168,747	170,371	189,837		19,466
Non-property tax items	4,161,400	4,161,400	4,237,991		76,591
Departmental income	1,138,700	1,138,700	1,086,278		(52,422)
Intergovernmental charges	217,408	224,628	137,626		(87,002)
Use of money and property	50,500	50,500	67,412		16,912
Licenses and permits	67,100	67,100	53,643		(13,457)
Fines and forfeitures	172,700	172,700	110,319		(62,381)
Sales of property and compensation for loss	19,000	19,000	10,375		(8,625)
Miscellaneous local sources	-	1,000	-		(1,000)
State aid	2,509,623	2,509,623	2,382,014		(127,609)
Federal aid	-	120,000	120,000		-
Interfund Transfer	75,000	75,000	-		(75,000)
Total revenue	13,413,776	13,541,996	13,218,538	-	(323,458)
Expenditures					
General government support	2,217,827	2,205,128	2,009,270		195,858
Public safety	5,055,968	5,196,707	5,227,334	59,370	(89,997)
Health	94,535	95,690	83,647		12,043
Transportation	1,124,031	1,109,830	1,150,312		(40,482)
Economic development	15,000	15,000	15,000		-
Culture and recreation	1,087,174	1,099,074	981,267		117,807
Home and community services	125,397	125,397	102,420		22,977
Employee benefits	3,045,295	3,045,295	3,121,206		(75,911)
Debt service:					
Principal	22,821	22,821	22,818		3
Interest	2,013	2,013	40,148		(38,135)
Total expenditures	12,790,061	12,916,955	12,753,422	59,370	104,163
Excess (deficiency) of revenue over expenditures	623,715	625,041	465,116	(59,370)	(219,295)
Other financing uses					
BANS redeemed from appropriations	-	-	(85,000)		(85,000)
Operating transfers out	(638,715)	(638,716)	(520,649)		118,067
Total other financing uses	(638,715)	(638,716)	(605,649)	-	33,067
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$ (15,000)	\$ (13,675)	\$ (140,533)	\$ (59,370)	\$ (186,228)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2007

(Water Fund and Sewer Fund Only)

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 5,097,540	\$ 5,097,540	\$ 5,188,118	\$ -	\$ 90,578
Intergovernmental charges	220,500	220,500	188,937		(31,563)
Sales of property and compensation for loss	19,000	19,000	26,882		7,882
State aid	5,000	5,000	5,509		509
Total revenue	5,342,040	5,342,040	5,409,446	-	67,406
Expenditures					
General government support	147,300	142,300	140,069		2,231
Home and community services	3,140,345	3,062,263	2,842,700	-	219,563
Employee benefits	799,553	882,635	870,158		12,477
Debt service - interest expense	-	-	76,451		(76,451)
Total expenditures	4,087,198	4,087,198	3,929,378	-	157,820
Excess of revenue over expenditures	1,254,842	1,254,842	1,480,068	-	225,226
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(118,000)		(118,000)
Operating transfers out	(1,224,907)	(1,224,907)	(955,008)		269,899
Total other financing sources (uses)	(1,224,907)	(1,224,907)	(1,073,008)	-	151,899
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 29,935	\$ 29,935	\$ 407,060	\$ -	\$ 377,125

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2007

	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Use of money and property	\$ -	\$ 60	\$ -	\$ 60
Total revenue	-	60	-	60
Expenditures				
General government support	5,000	19,299		(14,299)
Debt service:				
Principal	842,616	842,616		-
Interest	543,524	530,406		13,118
Total expenditures	1,391,140	1,392,321	-	(1,181)
Excess (deficiency) of revenue over expenditures	(1,391,140)	(1,392,261)	-	(1,121)
Other financing sources (uses)				
Operating transfers out	-	(869)		(869)
Operating transfers in	1,386,040	1,392,243		6,203
Total other financing sources (uses)	1,386,040	1,391,374	-	5,334
Excess (deficiency) of revenue and other financing sources over expenditures	\$ (5,100)	\$ (887)	\$ -	\$ 4,213

CITY OF OLEAN, NEW YORK
STATEMENTS OF FIDUCIARY NET ASSETS
AS OF MAY 31, 2007 AND 2006

Page 18

	<u>2007</u>	<u>2006</u>
Assets		
Cash on deposit		
Regular accounts	\$ 72,252	\$ 88,604
Restricted accounts	33,022	79,305
Due from governmental activities - general fund	<u>52,520</u>	<u>-</u>
 Total assets	 <u><u>\$ 157,794</u></u>	 <u><u>\$ 167,909</u></u>
Due to governmental activities - general fund	\$ 8,273	\$ 8,960
Other liabilities	<u>149,521</u>	<u>158,949</u>
 Total liabilities	 <u><u>\$ 157,794</u></u>	 <u><u>\$ 167,909</u></u>

See accompanying independent auditors' report and notes to the financial statements.

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF MAY 31, 2007

Total fund balance - governmental funds \$ (3,121,263)

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of the following at year-end:

Cost of the assets	\$ 51,760,958	
Accumulated depreciation	<u>(20,313,186)</u>	31,447,772

Interest on long-term assets is not accrued in governmental funds, but rather is recognized as an expenditure when due. (181,400)

Long-term liabilities, including serial bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of the following:

Due to other governments - Constitution Avenue note, net	(77,207)	
NYS Environmental Facilities Corporation Bond	(6,780,000)	
Serial Bonds payable	(10,258,000)	
Environmental liability	(1,018,000)	
Retirement incentive	(542,305)	
Compensated absences	<u>(581,796)</u>	(19,257,308)

Total net assets - governmental liabilities \$ 8,887,801

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash on hand	\$ 1,348			\$ 1,348
Cash on deposit				
Regular accounts	5,934,746			5,934,746
Receivables				
Refuse and garbage	1,383			1,383
Special assessment	15,542			15,542
Accounts receivable	1,693,117			1,693,117
Due from other funds	2,712,468		\$ (2,712,468)	-
Advances to other funds	1,843,884		(1,843,884)	-
State, Federal and other governments	822,239	\$ 111,742		933,981
Revolving loans receivable	411,933			411,933
First Time Homebuyers loans receivable	167,824			167,824
Rehabilitation loans receivable	24,601			24,601
Capital Assets, net		31,447,772		31,447,772
Total assets	<u>\$ 13,629,085</u>	<u>\$ 31,559,514</u>	<u>\$ (4,556,352)</u>	<u>\$ 40,632,247</u>
Liabilities				
Accounts payable	\$ 419,177			\$ 419,177
Accrued liabilities	1,042,529	\$ 181,400	\$ (225,000)	998,929
Due to other funds	2,756,715		(2,712,468)	44,247
Advances from other funds	1,843,884		(1,843,884)	-
Due to other governments	-	188,949		188,949
Due to employee retirement system	186,600			186,600
Other liabilities	26,338			26,338
Deferred revenue	4,405,105			4,405,105
Revenue anticipation notes payable	3,800,000			3,800,000
Bond anticipation notes payable	2,270,000			2,270,000
NYS EFC note		6,780,000		6,780,000
Serial bonds payable		10,258,000		10,258,000
Environmental liability		1,018,000	225,000	1,243,000
Retirement incentive		542,305		542,305
Compensated absences		581,796		581,796
Total liabilities	16,750,348	19,550,450	(4,556,352)	31,744,446
Fund equity (deficit)/net assets	<u>(3,121,263)</u>	<u>12,009,064</u>	<u>-</u>	<u>8,887,801</u>
Total liabilities and fund equity/net assets	<u>\$ 13,629,085</u>	<u>\$ 31,559,514</u>	<u>\$ (4,556,352)</u>	<u>\$ 40,632,247</u>

CITY OF OLEAN, NEW YORK

**RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES
AND CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2007**

Total net change in fund balances - governmental funds \$ 1,671,594

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

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities, the cost of those assets is
allocated over their useful lives as depreciation expense. Activity
for the current fiscal year ended was as follows:

Capital outlays	\$ 1,339,508	
Depreciation expense	<u>(1,233,598)</u>	
		105,910

Payments made on Catch Basin Disconnect Project are reported in governmental
funds as expenditures. However, in the statement of activities, these expenditures
are applied against the environmental liability reported on the statement of net assets.

40,000

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

851,973

Proceeds from long-term debt (net of issuance fees) are recorded as revenue in
governmental funds. However in the statement of activities, proceeds from
long-term debt is not recorded as revenue but rather the amount is recorded
as a liability in the statement of net assets. Proceeds from long-term
debt during the current year consisted of the following:

(1,268,000)

Interest on long-term debt in the statement of activities differs from the
amount reported in the governmental funds because interest is recognized
as an expenditure in the funds when it is due, and thus required the use
of current financial resources. In the statement of activities, however, interest
expense is recognized as the interest accrues, regardless of when it is due.

(11,400)

In the statement of activities, certain operating expenses - compensated
absences (vacation and sick days) are measured by the amounts earned
during the year. In the governmental funds, however, expenditures for these
items are measured by the amount of financial resources used.

(337,496)

Change in net assets of governmental activities \$ 1,052,581

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Total
Revenues					
Real property taxes	\$ 4,820,419				\$ 4,820,419
Special assessment tax - real property	2,624				2,624
Real property tax items	189,837				189,837
Non-property tax items	4,237,991				4,237,991
Departmental income	6,408,779			\$ (6,408,779)	-
Intergovernmental charges	326,563		\$ (13,464)	(313,099)	-
Use of money and property	70,486			(9,153)	61,333
Licenses and permits	53,643			(53,643)	-
Fines and forfeitures	110,319			(110,319)	-
Sales of property and compensation for loss	37,257			(37,257)	-
Miscellaneous local sources	174,700			(174,700)	-
State aid	2,774,160			(565,521)	2,208,639
Federal aid	1,426,653			(1,426,653)	-
Total revenues	20,633,431	-	(13,464)	(9,099,124)	11,520,843
Expenditures/Expenses					
General government support	2,172,969	\$ 167,437		(247,975)	2,092,431
Public safety	5,243,934	346,147		(359,464)	5,230,617
Health	83,647	6,044		(581,478)	(491,787)
Transportation	2,810,182	(918,451)		(1,982,488)	(90,757)
Economic development	15,000	1,233		(9,857)	6,376
Culture and recreation	981,267	80,444		(235,243)	826,468
Home and community services	3,410,422	171,236		(4,369,652)	(787,994)
Employee benefits	3,991,364		337,496	(1,197,918)	3,130,942
Debt service:					
Principal	865,434		(865,437)	-	(3)
Interest	647,005		11,400	(106,436)	551,969
Total expenditures/expenses	20,221,224	(145,910)	(516,541)	(9,090,511)	10,468,262
Excess (deficiency) of revenue over expenditures	412,207	145,910	503,077	(8,613)	1,052,581
Other sources and uses					
Bad debt expense	(8,613)			8,613	-
Proceeds from issuance of serial bonds net of bond issuance fees	1,268,000		(1,268,000)	-	-
Operating transfers in	1,483,111			(1,483,111)	-
Operating transfers out	(1,483,111)			1,483,111	-
Total other sources (uses)	1,259,387	-	(1,268,000)	8,613	-
Net change for the year	\$ 1,671,594	\$ 145,910	\$ (764,923)	-	\$ 1,052,581

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The *City of Olean, New York*, which was incorporated in 1915, is governed by the Charter of the City of Olean, other general laws of the State of New York and various local laws and ordinances. The Common Council, which is the legislative body responsible for the overall operation of the City, consists of the seven aldermen elected by ward. The Mayor serves as chief executive officer and the Auditor serves as chief fiscal officer of the City.

The following basic services are provided: police and fire protection, animal control, ambulance service, street lighting, street maintenance, snow removal, and public parking. The City also operates a recreational complex, a community building, an airport, a stadium, a system of parks, and water and sewer utilities. All governmental activities and functions performed for the City of Olean are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity includes organizations, functions and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Although the following organizations, functions or activities are related to the City they are not included in the City's reporting entity because of the reasons noted:

City School District - was created by state legislation, which designates the school board as the governing authority. The voters of the district elect school board members. The board designates management and exercises complete responsibility for all fiscal matters. The Council exercises no oversight over school operations.

The City of Olean Housing Authority was created in 1969 and the Olean Urban Renewal Agency was created in 1966, both by acts of the New York State Legislature. The Mayor appoints their governing boards. The City government provides no subsidies nor is it responsible for debt or operating deficits of these entities. The City government does not appoint management nor does it approve the entities' budgets, contracts or hiring of staff. The Common Council may approve or disapprove wage rates of the Housing Authority. The City government has no other oversight responsibility for funds of these entities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

1. Government-wide Statements

The Statement of Net Assets and the Statement of Activities present financial information about the City's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other exchange and non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

2. Fund Financial Statements

The fund statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

3. Fund Categories

- a. Governmental Funds** - Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City'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. The following are the City's governmental fund types:

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are Sewer, Water, Revolving Loan, Housing Rehabilitation and First Time Homebuyers.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

3. Fund Categories (continued)

Capital Projects Fund - used to account for financial resources to be used for the acquisition, construction or major repair of major capital facilities.

Debt Service Fund - used to account for current payment of principal and interest on general obligation long-term debt and for financial resources accumulated for payment of future principal and interest on long-term indebtedness.

- b. Fiduciary Funds** - Fiduciary Fund Types are used to account for fiduciary activities. Fiduciary activities are those in which the City acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements, because their resources do not belong to the City, and are not available to be used. Included in the Fiduciary Fund are Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

C. Basis of Accounting / Measurement Focus

The government-wide and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting/Measurement Focus (cont'd)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Property Taxes

City property taxes are levied annually and become a lien by May 1, preceding the fiscal year, which commences June 1. The City collects taxes until July 31 with late payment penalties of 1% added June 1 and July 1. Taxes uncollected at July 31 are turned over to Cattaraugus County for enforcement. The City receives the full amount of such taxes, plus the additional 2% penalty, within the year of levy.

E. Cash and Cash Equivalents

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

F. Fund Equity - Reservations and Designations

Reservations of fund equity are created to either satisfy legal restrictions or to plan for future expenditures. A designation of unreserved fund equity in governmental funds indicates the use of these resources in the subsequent year's budget. The following is a description of the reserves utilized by the City:

1. Encumbrance Reserve

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Project Funds.

The cost of construction contract commitments generally is recorded as an encumbrance of Capital Project Funds and is presented as a reserve for encumbrances. These committed amounts generally will become liabilities in future periods as the contractors perform the construction work. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Equity - Reservations and Designations (continued)

2. Reserve For Debt Service

This reserve is comprised of transfers and interest earnings on bond proceeds to be used to pay future debt service payments. This reserve is accounted for in the Debt Service Fund.

3. Unreserved

General Fund –

Debt Service Fund - The amount of \$5,000 has been designated as the amount estimated to be appropriated to offset debt service payments of the City of Olean during the 2007-08 fiscal year.

G. Budgetary Data (continued)

2. Budget Basis of Accounting

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.

The budget and actual comparison for Special Revenue Funds, included in the Combined Statement of Revenue and Expenditures – Budget and Actual, reflects budgeted and actual amounts for funds with legally authorized (appropriated) budgets.

Budgetary controls for the special revenue funds (other than the Water and Sewer Fund) are established in accordance with the applicable grant agreement or authorized project limit, which may cover a period other than the City's fiscal year. Consequently, the budgets for such funds have been excluded from the combined statement of revenue, expenditures, encumbrances and changes in fund balance - budget and actual.

Certain Special Revenue Funds have not been included in the comparison because they do not have the legally authorized (appropriated) budgets. The following is a reconciliation of the actual activity of these unbudgeted funds to the actual activity on the budget to actual comparison:

	June 1, 2006 Fund Equity	Revenues and Other Sources	Expenditures and Other Uses	May 31, 2007 Fund Equity
Total for funds included in Budget Comparison	\$ (888,399)	\$ 5,409,446	\$ 5,002,386	\$ (481,339)
Funds not included in budget comparison:				
Revolving Loan Fund	97,335	85,400	161,626	21,109
First Time Homebuyers Fund	37,196	249,180	246,982	39,394
Housing Rehabilitation Fund	10,042	21,158	12,393	18,807
Total Special Revenue Funds	<u>\$ (743,826)</u>	<u>\$ 5,765,184</u>	<u>\$ 5,423,387</u>	<u>\$ (402,029)</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budgetary Data

1. Budget Policies - The budget policies are as follows:

- a. The City's administration prepares a proposed budget for approval by the Common Council for the General, Water, Sewer and Debt Service Funds. The Common Council adopts the budget on or before April 15.
- b. The governing board must approve all modifications of the budget. However, the City Auditor is authorized to transfer certain budgeted amounts within departments.
- c. Appropriations established by adoption of the budget constitute a limitation on expenditures and encumbrances, which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Common Council approves them because of a need which exists which was not determined at the time the budget was adopted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenue Recognition

1. Sales and Use Taxes

The State of New York allocates a portion of its sales and use tax collection to all the municipalities within the State. The portion allocated to the City of Olean for 2006-2007 was \$3,784,000 as compared to \$3,642,000 for the prior fiscal year, an increase of \$142,000. The City's Combined Balance Sheet, as of May 31, 2007, reflects a receivable balance from Federal and State governments of \$648,951, of which, \$528,531 represents an amount of sales and use tax that is "measurable and available" at the end of the fiscal year in accordance with the modified accrual basis of accounting, for sales tax revenue. The City records this amount as non-property tax revenue in the general fund.

I. Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to October 31, 1999. For assets acquired prior to October 31, 1999, estimated historical costs based on appraisals conducted by independent third-party professionals was used. Because this appraisal was performed approximately eight years ago, the reasonableness of the estimated historical costs can not be determined. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 200	Straight-line	40 years
Land			
Improvements	\$ 200	Straight-line	25 years
Furniture and equipment	\$ 200	Straight-line	7 years
Transportation vehicles	\$ 200	Straight-line	8 years

Under GASB 34, the City is not required to account for infrastructure capital assets until the fiscal year ending June 30, 2008. Accordingly, all expenditures made for those assets, other than additions and improvements that increase capacity or efficiency, are charged to expense in the period incurred instead of calculating depreciation. In the future, the City will be required to conduct a condition assessment of these assets at least once every three years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Deferred Revenue

Deferred revenue is reported on the City's combined balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

K. Compensated Absences

Sick leave and Comp Time Pay - certain of the City's employee groups have negotiated benefits payable based on accumulated unused sick and comp days. Generally the employee must have accumulated minimum years of service with the City and must be eligible for retirement under the provisions of either the employee retirement systems. The City has recorded an estimated liability in the government-wide financial statements as of May 31, 2007 amounting to \$581,796 to recognize the cost of the benefits for those employees eligible to receive such benefits. Payment of these benefits is dependent on many factors; therefore, the timing of future payments is not readily determinable. The City believes sufficient resources and budgetary appropriations will be available as the benefits become payable in future years. The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental-wide financial statements.

L. Retirement Incentives

The City has offered retirement incentives under separate collective bargaining agreements which are more thoroughly discussed subsequently in these notes.

M. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

O. Interfund Activity

The amounts reported on the Statement of Net Assets for due to and from other funds represents amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

During the course of operations, the City has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. Eliminations have been also made for amounts transferred to and from the same fund type.

P. Total Columns on the Financial Statements

Total columns on the general-purpose financial statements are captioned "Memo Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS (continued)

A. Total Fund Equity of Governmental Funds vs. Net Assets of Governmental Activities

Total fund equity of the City's governmental funds differs from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity and the Statement of Activities fall into one of three broad categories, which are summarized below.

1. Long-term Revenue Differences

Long-term revenue differences arise because governmental funds report revenue only when they are considered "measurable" and "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Cash and Investments

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The City 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.

Collateral is required for demand deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

a. Deposits

Deposits are valued at cost or cost plus interest and are categorized as either:

- (1) Insured through the Federal Deposit Insurance Corporation or collateralized with securities held by the entity or by the agent in the entity's name;
- 2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name:
- (3) Uncollateralized

Total financial institution (bank) balances at May 31, 2007 per the bank were approximately \$5,596,000. These deposits are categorized as follows:

Category 1	Category 2	Category 3	Carrying Value
\$ 200,000	\$ 5,396,000	\$ -	\$5,596,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (continued)

2. Capital Assets

Governmental activities:	Beginning Balance 5/31/06	Additions	Ending Balance 5/31/07
Capital assets that are not depreciated:			
Land	\$ 553,070		\$ 553,070
Construction in progress	4,452,122	\$ 1,157,160	5,609,282
Capital assets that are depreciated:			
Buildings and improvements	37,985,445	76,244	38,061,689
Furniture and equipment	2,760,051	39,533	2,799,584
Vehicles	4,670,762	66,571	4,737,333
Total historical cost	50,421,450	\$ 1,339,508	51,760,958
Less: Accumulated depreciation:	19,079,588	\$ 1,233,598	20,313,186
Total net book value	\$ 31,341,862		\$ 31,447,772

Depreciation expense:

General governmental support	\$ 184,576
Public safety	428,657
Health	6,838
Transportation	254,250
Economic development	1,226
Culture and recreation	80,212
Home and community services	277,839
	\$ 1,233,598

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(Continued)

A. Assets (continued)

3. Receivables

Receivables at May 31, 2007 consisted of the following, which are stated at net realizable value. The City's management has deemed the amounts to be fully collectible.

Fund	Description	Amount
General Fund	Due from Federal & State	
	- Other	\$ 120,420
General Fund	Due from Federal & State	
	- NYS sales tax	528,531
General Fund	Other receivables	260,231
Special		
Revenue:		
Water Fund	Accounts receivable	
	- water rents and meter	853,268
Sewer Fund	Accounts receivable	
	- sewer rents	596,543
Community		
Development:		
Revolving Loan	Loan receivable	411,933
1 st Time Home	Loan receivable	167,824
Housing Rehab	Loan receivable	24,601
Capital Projects	Due from Federal & State	
	- various projects	173,288
		<u>\$3,136,639</u>

B. Liabilities

1. Deferred Revenue

Deferred revenue at May 31, 2007 was as follows:

	General Fund	Special Revenue Fund
Real property taxes	\$ 3,654,253	
Payment in-lieu of taxes	129,775	
Special assessment taxes	15,542	
FEMA grant	1,180	
Revolving loans		\$ 604,355
	<u>\$ 3,800,750</u>	<u>\$ 604,355</u>

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(Continued)

B. Liabilities (continued)

1. Deferred Revenues (continued)

Deferred real property taxes reflect collections during May 2007 for real property taxes levied on May 1 for the 2007-2008 fiscal year. Deferred special assessment taxes consist of levies on property owners to be collected after May 31, 2007. Installments on special assessments are due over a period of 5 to 10 years. Revenue from revolving loans is collected over a period of 5 to 20 years.

2. Pension Plans

a. Plan Description

The City participates in the New York State Employees' Retirement System (ERS) and the New York State Policemen's and Firemen's Retirement System (PFRS). These are cost sharing multiple-employer public employee retirement systems. The Systems provide retirement benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). 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 State Office Building, Albany, NY 12244.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

2. Pension Plans (continue)

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

		<u>ERS</u>	<u>PFRS</u>
May 31,	2007	\$514,789	\$645,009
	2006	536,186	614,542
	2005	579,844	651,952

Effective June 1, 1986, the City entered into an agreement with the Patrol Unit of Olean Police Local 967 and the Command Unit of the Olean Police Local 967c to provide health insurance to retired police employees and surviving spouses through the Olean Police Retirees Health Insurance Fund. The City is required to contribute \$53,995 annually to the Fund.

Effective June 1, 1988, the City entered into a similar agreement establishing the Olean General Unit Retirees Health Insurance Fund. The agreement called for the City to contribute \$55,569, to this Fund each year. This agreement was modified through the 2001-2004 Collective Negotiations Agreement to increase the City's contribution to \$88,500 annually to this Fund, which commenced during the 2002-2003 fiscal year.

Effective June 1, 1988, the City entered into an agreement establishing the Olean Fire Unused Sick Leave Pay Fund. The City is required to contribute \$18,201, to this fund each year.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

3. Short-Term Debt

a. Bond Anticipation Notes

Liabilities for Bond Anticipation Notes Payable (BANs) are generally accounted for in the Capital Projects Fund. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter.

Notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as a current liability of the fund that will actually receive the proceeds from the issuance of the bonds. Such notes may be classified as Long-Term Debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

On August 17, 2006, the *City of Olean, New York* issued bond anticipation notes, 2006 (various purposes) in the amount of \$2,270,000. The bonds are dated August 17, 2006 with a maturity date of August 16, 2007 and were issued without the option of prepayment. The bonds carry an interest rate of 3.99%.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

3. Short-Term Debt (continued)

a. Bond Anticipation Notes (continued)

The City's bond anticipation notes outstanding as of May 31, 2007 are as follows:

Description	Amount	Interest Rate	Budget Appropriation May 31, 2008
Sanitary Sewer System	\$ 1,370,000	3.99%	\$ 50,000
Sewer Improvements	520,000	3.99%	30,000
Odor Control WTP	<u>380,000</u>	3.99%	<u>20,000</u>
Totals	<u>\$ 2,270,000</u>		<u>\$ 100,000</u>

b. Short-Term Debt Interest

Interest expense related to the bond anticipation notes amounted to \$114,583 during the fiscal year ended May 31, 2007.

c. Revenue Anticipation Notes

Liabilities for Revenue Anticipation Notes Payable (RANs) are generally accounted for as a current liability of the fund that will actually receive the proceeds from issuance of the notes. RANs are short-term municipal debt obligations used to resolve cash flow deficits. They are secured by anticipated collections of fines, license fees, interest income, assessments, user fees, grant funds or other non-tax revenues. The note may not extend more than one year beyond the original date of issue.

On October 11, 2006, the *City of Olean, New York* issued a revenue anticipation note in the amount of \$3,800,000 in anticipation of the receipt of revenues in the form of sales tax and State aid by the City during the fiscal year commencing June 1, 2006 and ending May 31, 2007. This note carries an interest rate of 4.50% and matures on August 30, 2007.

The City revenue anticipation note outstanding as of May 31, 2007 is as follows:

Description	Amount	Interest Rate	Budget Appropriation May 31, 2008
RAN	\$ 3,800,000	4.50%	\$ 151,525

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

3. Long-Term Debt

a. Debt Limit

At May 31, 2007 the total outstanding indebtedness of the City aggregated \$23,126,000 (including bond anticipation notes and revenue anticipation notes). Of this amount, \$3,437,000 is subject to the constitutional debt limit and represented approximately 11.5% of its statutory debt limit.

b. Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the government-wide financial statements. The provision to be made in future budgets for capital indebtedness represents the amount exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

c. Other Long-Term Debt

In addition to the above long-term debt, the *City of Olean, New York* has a loan from New York State to finance the construction of Constitution Avenue. The balance of this loan at May 31, 2007 was \$188,949. Although the loan is in the City of Olean's name, the Towns of Allegany and Olean are responsible for 59% of the loan or \$111,742, which is recorded in due from other governments. Both the asset and liability are recorded in the government-wide financial statements.

During the fiscal year ended May 31, 2002, the City recorded a long-term liability related to estimated future costs associated with a Department of Conservation's Order on Consent. This situation is more fully described in Note 4E of the financial statements.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

4. Long-Term Debt (continued)

d. Summary Long-Term Debt

The following is a summary of bonds outstanding as of May 31, 2007:

	<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding May 31, 2007</u>
General Fund					
Various Purpose	10/97	\$ 2,888,000	4.50%	10/11	\$ 708,000
Various Purpose	08/04	938,383	Various	08/14	522,125
Taxable Pension Bond	12/04	447,908	Various	12/09	270,000
Public Improvement Bond	08/06	1,160,000	Various	08/14	1,160,000
Special Revenue Funds					
Water Filtration Plant	03/03	2,790,591	Various	10/32	2,505,000
Water Fund-Variou	10/97	227,000	4.50%	10/08	32,000
Water Filtration Plant	07/03	1,809,453	Various	07/23	1,590,000
Water Reservoir	07/03	4,665,163	Various	07/24	4,275,000
Water Filtration Plant	02/04	5,868,000	4.50%	02/39	5,645,000
Water Fund – Various	08/04	207,262	Various	08/14	105,625
Sewer Fund – Various	08/04	82,905	Various	08/14	42,250
Water Fund – Pension	12/04	73,816	Various	12/09	45,000
Sewer Fund – Pension	12/04	49,358	Various	12/09	30,000
Water Fund – Public Imp.	08/06	28,000	Various	08/14	28,000
Sewer Fund – Public Imp.	08/06	80,000	Various	08/14	80,000
Total					<u>\$ 17,038,000</u>

e. Changes

The following is a summary of changes in long-term liabilities for the period ended May 31, 2007:

	<u>Payable at June 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at May 31, 2007</u>
Bonds	\$ 3,844,453	\$ 1,268,000	\$ 499,453	\$ 4,613,000
EFC Grid Note/Bond	2,575,000		70,000	2,505,000
EFC Grid Bond	4,470,163		195,163	4,275,000
RD Bond	5,723,000		78,000	5,645,000
Subtotal	16,612,616	1,268,000	842,616	17,038,000
Due to Other				
Governments	211,771		22,822	188,949
Environmental Liability	1,283,000		40,000	1,243,000
Retirement Incentive		542,305		542,305
Compensated Absences	786,605		204,809	581,796
	2,281,376	542,305	267,631	2,556,050
	\$ 18,893,992	\$ 1,810,305	\$ 1,110,247	\$ 19,594,050

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

4. Long-Term Debt (continued)

f. Long-Term Debt Interest

Interest expense on long term indebtedness totaled \$532,422 for the year ended May 31, 2007, of which \$2,016 was recorded in the general fund, while \$530,406 was recorded in the debt service fund.

g. Maturity

The following table summarizes the City's future serial bond debt, Rural Development, EFC bond and due to other governments debt service requirements as of May 31, 2007:

Year Ending May 31	Total	Principal	Interest
2008	\$ 1,691,418	\$ 1,107,050	\$ 584,368
2009	1,627,801	1,103,281	524,520
2010	1,519,719	1,027,518	492,201
2011	1,373,238	911,751	461,487
2012	1,221,811	785,991	435,820
2013-2017	4,938,722	3,037,358	1,901,364
2018-2022	4,401,201	2,928,000	1,473,201
2023-2027	3,471,149	2,488,000	983,149
2028-2032	2,343,824	1,706,000	637,824
2033-2037	1,799,795	1,496,000	303,795
2038-2039	665,053	636,000	29,053
Total	\$25,053,731	\$ 17,226,949	\$ 7,826,782

5. Post-Employment Benefits

Certain non-contract retirees of the *City of Olean, New York* have negotiated post-employment benefits to be paid by the City which aggregated approximately \$52,000 for the fiscal year ended May 31, 2007.

C. Deferred Compensation Plan

In October 1997 the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

C. Deferred Compensation Plan (continued)

On October 1, 1997 the New York State Deferred Compensation Board (Board) created a Trust and Custody agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Consequently, Statement No. 32 became effective for the New York State Deferred Compensation Plan as of October 1, 1997. Since the Board is no longer the trustee of the plan, the plan no longer meets the criteria for inclusion in New York State's financial statements. Therefore, municipalities, which participate in New York State's Deferred Compensation Plan, are no longer required to record the value of plan assets.

D. Fund Equity Reserves

The City's fund equity is comprised of:

1. Reserves

The City's fund equity includes reserves established for the following purposes:

Fund	Reservation Purposes	May 31, 2007
General Fund	Reserve for encumbrances	\$ 59,370
Debt Service	Reserve for debt	29,227
		<u>\$ 88,597</u>

2. Unreserved

a. General Fund

There are no amounts designated to reduce the taxes for the year ending May 31, 2008.

b. Debt Service Fund

The amount of \$5,000 has been designated as the amount estimated to be appropriated to offset debt service payments of the *City of Olean, New York* during the 2007-08 fiscal year.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transactions

Interfund receivables and payables at May 31, 2007 and interfund transactions during the fiscal year ended May 31, 2007 were as follows:

	Due From Other Funds	Due to Other Funds	Long-Term Advances Receivable	Long-Term Advances Payable	Interfund Revenue	Interfund Expenditures
General Fund	\$ 13,273	\$ 1,620,331	\$ 1,843,884			\$ 520,649
Capital Projects Fund	2,677,542	1,109,731			\$ 90,868	6,585
Agency Fund	44,247					
Debt Service Fund	21,653				1,392,243	869
Sewer Fund				\$ 890,821		20,368
Water Fund		21,653		953,063		934,640
Other Special Revenue Funds		5,000				
Totals	\$ 2,756,715	\$ 2,756,715	\$ 1,843,884	\$ 1,843,884	\$ 1,483,111	\$ 1,483,111

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A. Risk Financing and Related Insurance

General Information

The *City of Olean, New York* is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage. The City is self-insured against unemployment claims.

B. Compensated Absences

The City does not accrue a liability for accumulating, non-vesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, the value for accumulating, non-vesting sick leave is considered a contingent liability.

C. Federal and State Audits

The City has received grants reported in the general and capital project funds, which are subject to audit by agencies of the state and federal government. Such audits may result in disallowances and a request for a return of funds. Based on past audits and no known significant areas of non-compliance, the City believes disallowances, if any, will not be material.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (Continued)

D. Litigation

The City is currently involved in a number of tax certiorari proceedings which are in the discovery phases. At this time, it is not possible to predict with certainty the outcome of these matters.

The City currently has some matters and claims that have been referred to the City's insurance carrier for defense.

E. Environmental

In 1994 the *City of Olean, New York* determined that leakage problems existed at the site of its former landfill in Ischua, New York. The City was issued an Order on Consent by the Department of Environmental Conservation (DEC) which required the City to prepare an engineering report for the wetland treatment system and to construct a leachate collection and treatment system. During the 2000-01 fiscal year, the City prepared and forwarded this report to the DEC and is awaiting their response regarding the construction of the leachate collection and treatment system. The City has accrued \$125,000 as of May 31, 2007, for the estimated costs associated with this Order. It is not known at this time whether other remediation costs will be necessary.

NOTE 4 – COMMITMENTS AND CONTINGENCIES
(Continued)

E. Environmental (continued)

The *City of Olean, New York* has negotiated a settlement with the Department of Environmental Conservation (DEC) regarding the City's wastewater treatment plant. The final Order on Consent includes a schedule of compliance which sets forth dates for various plans of action concerning the wastewater treatment plant and requires the City to complete and submit an assessment of its sanitary sewer system, pumping stations, and a wet weather operation plant. The *City of Olean, New York* submitted its plans for monitoring, maintenance and necessary remedial actions regarding the wastewater treatment plant with the assistance of their engineering consultants. These plans are based on the results of smoke testing which have taken place over the last three years. As part of the plan, the *City of Olean, New York* entered into a contract with its engineering consultants on May 28, 2003 for estimated costs of approximately \$1,326,000. An initial BAN of \$128,810 was issued in a previous fiscal year for the system engineering and design costs. On August 19, 2004, the City issued bond anticipation notes in the amount of \$2,705,000 of which \$700,000 was designated for the first two phases of this project. On August 19, 2005 the City issued an additional BAN in the amount of \$700,000 for the last phases of this project.

In a prior year, the City accrued \$1,500,000 in the statement of net assets as an estimate of the cost of remedial actions; this liability has been reduced by related costs incurred during the current and prior years and as of May 31, 2007, the estimated liability stands at \$1,118,000.

F. Retirement Incentives

In a prior year, the *City of Olean, New York* offered retirement incentives to certain employees. Employees whom participated in the incentive were eligible to receive continuation of health coverage for five years or a cash alternative. Total accumulated costs associated with the incentive approximated \$788,000, of which \$207,000 was paid during the fiscal year ended May 31, 2007 and \$39,000 was included in accrued liabilities in the general fund Balance Sheet. The remaining \$542,000 was recognized as a liability in the Statement of Net Assets. Future payments related to the incentive are as follows:

Year Ending May 31	Incentive
2008	\$ 132,000
2009	130,000
2010	133,000
2011	147,000
Total	<u>\$ 542,000</u>

NOTE 5 – BORROWINGS FROM THE CAPITAL PROJECT FUND

The *City of Olean, New York* experienced significant deficiencies of revenue over expenditures during the fiscal years ended May 31, 2002 through 2006 and has accumulated deficits in its general, water and sewer funds as of May 31, 2007. As a result, the City's general, water and sewer funds borrowed funds accumulated in the capital projects fund and there was a balance outstanding of \$1,568,000 as of May 31, 2007. These funds were related to proceeds received from the issuance of bond anticipation notes and serial bonds for specific capital projects and were utilized to offset both operating and cash flow deficiencies experienced in the general, water and sewer funds.

NOTE 6 – ACCUMULATED DEFICITS

As of May 31, 2007, the *City of Olean, New York* had accumulated deficits in the general fund, water fund and sewer fund in the amounts of approximately \$2,421,000, \$136,000 and \$346,000, respectively. These deficits have accumulated as a result of current (general) and prior years' (general, water and sewer) operating deficits. As mentioned in Note 7, the City has subsequently issued bond anticipation notes to alleviate the accumulated deficits, when such notes are converted to long-term. Management of the *City of Olean, New York* is in the process of developing a comprehensive long-term financial plan that will encompass repayment of future debt service costs associated with the deficit financing.

The *City of Olean, New York's* capital project funds also had an accumulated deficit as of May 31, 2007 which totaled approximately \$333,000. It is not uncommon for municipalities to have deficit fund balances in the capital project fund as a result of short-term debt (bond anticipation notes) being recorded as liabilities until they are converted to long-term debt at which time such proceeds are recorded as other financing sources (revenue). However, as of May 31, 2007, the *City of Olean, New York* had certain projects (water filtration plant, airport/parallel taxiway and airport runway rehabilitation and lights) that when closed out will have deficit fund balances. As a result, the City will be required to transfer funds from its general fund to eliminate the capital project deficits. Management is developing plans to alleviate these deficits in future years.

NOTE 7 – SUBSEQUENT EVENTS

Bond Anticipation Notes – Capital Projects

On August 17, 2007, the *City of Olean, New York* issued bond anticipation notes, 2007 (various purposes) in the amount of \$2,170,000. The bonds are dated August 17, 2007 with a maturity date of August 14, 2008 and were issued without the option of prepayment. The bonds carry an interest rate of 4.0% and were issued to finance the following projects.

Sanitary sewer system improvements (odor control)	\$ 490,000
Sewer system (catch basin) improvements	1,320,000
Phase II modifications of wastewater Treatment plant (odor control)	<u>360,000</u>
	<u>\$ 2,170,000</u>

Bond Anticipation Notes – Deficit Financing

On September 27, 2007, the *City of Olean, New York* issued bond anticipation notes, 2007A (deficit financing) in the amount of \$4,300,000. The bonds are dated September 27, 2007 with a maturity date of September 25, 2008 and were issued without the option of prepayment. The bonds carry an interest rate of 3.74% and were issued to finance the accumulated deficit in the City's General, Water and Sewer funds through May 31, 2007.

Revenue Anticipation Notes

On August 16, 2007, the *City of Olean, New York* issued a revenue anticipation note in the amount of \$3,500,000 in anticipation of the receipt of revenues in the form of sales tax and State aid by the City during the fiscal year commencing June 1, 2007 and ending May 31, 2008. This note carries an interest rate of 4.0% and matures on August 14, 2008. The revenue anticipation note is noncallable.

SUPPLEMENTARY INFORMATION

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
GENERAL FUND
AS OF MAY 31, 2007 AND 2006

	<u>May 31</u> <u>2007</u>	<u>May 31</u> <u>2006</u>
<u>Assets</u>		
Cash on hand	\$ 1,308	\$ 1,308
Cash on deposit		
Regular accounts	5,153,081	2,568,624
Receivables		
Refuse and garbage	1,383	2,000
Special assessment	15,542	17,720
Accounts receivable	243,306	214,098
Due from other funds	13,273	74,213
Advances to other funds	1,843,884	1,383,639
State and federal	648,951	701,889
Total assets	\$ 7,920,728	\$ 4,963,491
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts payable	\$ 136,621	\$ 116,378
Accrued liabilities	818,032	622,721
Due to other funds	1,620,331	2,270,750
Due to employee retirement system	156,266	1,136,388
Other liabilities	9,274	-
Deferred revenues	3,800,750	3,097,267
Revenue anticipation notes payable	3,800,000	-
Total liabilities	10,341,274	7,243,504
Fund Equity		
Reserved for encumbrances	59,370	13,675
Unreserved:		
Designated for subsequent year's expenditures	-	15,000
Undesignated (deficit)	(2,479,916)	(2,308,688)
Total fund equity (deficit)	(2,420,546)	(2,280,013)
	\$ 7,920,728	\$ 4,963,491

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY
GENERAL FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006

Page 36

	May 31 2007	May 31 2006
Revenue		
Real property taxes	\$ 4,820,419	\$ 4,337,019
Special assessment tax - real property	2,624	4,977
Real property tax items	189,837	175,799
Non-property tax items	4,237,991	4,110,085
Departmental income	1,086,278	995,121
Intergovernmental charges	137,626	240,448
Use of money and property	67,412	32,265
Licenses and permits	53,643	64,338
Fines and forfeitures	110,319	150,220
Sales of property and compensation for loss	10,375	35,295
Miscellaneous local sources	-	15,581
State aid	2,382,014	2,034,079
Federal aid	120,000	-
Total revenue	13,218,538	12,195,227
Expenditures		
General government support	2,009,270	2,165,425
Public safety	5,227,334	5,239,346
Health	83,647	65,307
Transportation	1,150,312	1,257,436
Economic development	15,000	15,000
Culture and recreation	981,267	1,092,519
Home and community services	102,420	78,604
Employee benefits	3,121,206	3,050,275
Debt service:		
Principal	22,818	22,594
Interest	40,148	68,492
Total expenditures	12,753,422	13,054,998
Excess (deficiency) of revenue over expenditures	465,116	(859,771)
Other financing uses		
BANS redeemed from appropriations	(85,000)	-
Operating transfers out	(520,649)	(587,390)
Total other financing uses	(605,649)	(587,390)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(140,533)	(1,447,161)
Fund equity (deficit), beginning of year	(2,280,013)	(832,852)
Fund equity (deficit), end of year	\$ (2,420,546)	\$ (2,280,013)

See accompanying independent auditors' report on supplementary information.

**CITY OF OLEAN, NEW YORK
COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS
AS OF MAY 31, 2007**

	Water	Sewer	Community Development			(Memo only) Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Assets						
Cash on hand	\$ 40					\$ 40
Cash on deposit						
Regular accounts	120,060	\$ 77,063	\$ 38,173	\$ 18,807	\$ 44,391	298,494
Receivables						
Accounts receivable	853,268	596,543				1,449,811
Revolving loans receivable			411,933			411,933
First Time Homebuyers loans receivable					167,824	167,824
Rehabilitation loans receivable				24,601		24,601
Total assets	\$ 973,368	\$ 673,606	\$ 450,106	\$ 43,408	\$ 212,215	\$ 2,352,703
Liabilities						
Accounts payable	\$ 51,301	\$ 56,644				\$ 107,945
Accrued liabilities	66,197	58,300				124,497
Due to other funds	21,653	-			\$ 5,000	26,653
Advances from other funds	953,063	890,821				1,843,884
Other liabilities/due to retirement systems	16,667	13,667	\$ 17,064			47,398
Deferred revenues			411,933	\$ 24,601	167,821	604,355
Total liabilities	1,108,881	1,019,432	428,997	24,601	172,821	2,754,732
Fund Equity						
Unreserved:						
Undesignated (deficit)	(135,513)	(345,826)	21,109	18,807	39,394	(402,029)
Total fund equity (deficit)	(135,513)	(345,826)	21,109	18,807	39,394	(402,029)
Total liabilities and fund equity	\$ 973,368	\$ 673,606	\$ 450,106	\$ 43,408	\$ 212,215	\$ 2,352,703

CITY OF OLEAN, NEW YORK

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY - ALL SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2007**

	Water	Sewer	Community Development			Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Revenue						
Departmental income	\$ 3,025,551	\$ 2,162,567	\$ 85,190	\$ 20,783	\$ 28,410	\$ 5,322,501
Intergovernmental charges		188,937				188,937
Use of money and property			210	375	106	691
Sales of property & compensation for loss	26,882					26,882
Miscellaneous local sources						-
State aid		5,509				5,509
Federal aid					220,664	220,664
Total revenue	3,052,433	2,357,013	85,400	21,158	249,180	5,765,184
Expenditures						
General government support	73,069	67,000				140,069
Home and community services	1,427,043	1,415,657	161,626	3,780	246,982	3,255,088
Employee benefits	465,164	404,994				870,158
Debt service - interest expense	1,715	74,736				76,451
Total expenditures	1,966,991	1,962,387	161,626	3,780	246,982	4,341,766
Excess of revenue over expenditures	1,085,442	394,626	(76,226)	17,378	2,198	1,423,418
Other financing sources (uses)						
Uncollectable loan writeoffs			-	(8,613)		(8,613)
BANs redeemed from appropriations	(28,000)	(90,000)				(118,000)
Operating transfers out	(934,640)	(20,368)				(955,008)
Total financing sources (uses)	(962,640)	(110,368)	-	(8,613)	-	(1,081,621)
Excess (deficiency) of revenue over expenditures and other financing uses	122,802	284,258	(76,226)	8,765	2,198	341,797
Fund equity (deficit), beginning of year	(258,315)	(630,084)	97,335	10,042	37,196	(743,826)
Fund equity (deficit), end of year	\$ (135,513)	\$ (345,826)	\$ 21,109	\$ 18,807	\$ 39,394	\$ (402,029)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SPECIAL REVENUE FUNDS
AS OF MAY 31, 2007 and 2006

	<u>May 31</u> <u>2007</u>	<u>May 31</u> <u>2006</u>
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	298,494	266,485
Receivables		
Accounts receivable	1,449,811	1,232,717
Due from other funds	-	-
Revolving loans receivable	411,933	351,403
First time homebuyers loans receivable	167,824	146,736
Rehabilitation loans receivable	24,601	36,984
Total assets	<u>\$ 2,352,703</u>	<u>\$ 2,034,365</u>
Liabilities		
Accounts payable	\$ 107,945	\$ 71,683
Accrued liabilities	124,497	108,654
Due to other funds	26,653	343,743
Advances from other funds	1,843,884	1,383,641
Other liabilities/due to retirement systems	47,398	221,428
Deferred revenues	604,355	649,043
Total liabilities	<u>2,754,732</u>	<u>2,778,191</u>
Fund Equity (deficit)		
Unreserved:		
Undesignated (deficit)	(402,029)	(743,826)
Total fund equity (deficit)	<u>(402,029)</u>	<u>(743,826)</u>
Total liabilities and fund equity	<u>\$ 2,352,703</u>	<u>\$ 2,034,365</u>

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006****Page 40**

	May 31 2007	May 31 2006
Revenue		
Departmental income	\$ 5,322,501	\$ 4,603,621
Intergovernmental charges	188,937	223,927
Use of money and property	691	5,220
Sales of property and compensation for loss	26,882	38,964
State aid	5,509	3,165
Federal aid	220,664	354,786
Total revenue	5,765,184	5,229,683
Expenditures		
General government support	140,069	134,016
Home and community services	3,255,088	3,350,919
Employee benefits	870,158	809,321
Debt service - interest expense	76,451	35,155
Total expenditures	4,341,766	4,329,411
Excess of revenue over expenditures	1,423,418	900,273
Other financing sources (uses)		
Uncollectable loan writeoffs	(8,613)	(58,648)
BANs redeemed from appropriations	(118,000)	(64,000)
Operating transfers out	(955,008)	(967,773)
Total other financing sources (uses)	(1,081,621)	(1,090,421)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	341,797	(190,148)
Fund equity (deficit), beginning of year	(743,826)	(553,678)
Fund equity (deficit), end of year	\$ (402,029)	\$ (743,826)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
WATER FUND
AS OF MAY 31, 2007 and 2006

	May 31 2007	May 31 2006
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	120,060	5,468
Accounts receivable	853,268	731,704
Total assets	\$ 973,368	\$ 737,212
Liabilities		
Accounts payable	\$ 51,301	\$ 45,243
Accrued liabilities	66,197	64,559
Due to other funds	21,653	169,261
Advances from other funds	953,063	598,743
Other liabilities/due to retirement systems	16,667	117,721
Total liabilities	1,108,881	995,527
Fund Equity (deficit)		
Unreserved:		
Undesignated (deficit)	(135,513)	(258,315)
Total fund equity (deficit)	(135,513)	(258,315)
Total liabilities and fund equity	\$ 973,368	\$ 737,212

**CITY OF OLEAN, NEW YORK
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND EQUITY - WATER FUND
 FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006**

	May 31 2007	May 31 2006
Revenue		
Departmental income	\$ 3,025,551	\$ 2,765,607
Sales of property and compensation for loss	26,882	38,964
Total revenue	3,052,433	2,804,571
Expenditures		
General government support	73,069	69,016
Home and community services	1,427,043	1,549,714
Employee benefits	465,164	442,306
Debt service - interest expense	1,715	1,607
Total expenditures	1,966,991	2,062,643
Excess of revenue over expenditures	1,085,442	741,928
Other financing sources (uses)		
BANS redeemed from appropriations	(28,000)	(29,000)
Operating transfers out	(934,640)	(890,633)
Total other financing uses	(962,640)	(919,633)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	122,802	(177,705)
Fund equity (deficit), beginning of year	(258,315)	(80,610)
Fund equity (deficit), end of year	\$ (135,513)	\$ (258,315)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - WATER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2007

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,043,440	\$ 3,043,440	\$ 3,025,551	\$ -	\$ (17,889)
Sales of property and compensation for loss	19,000	19,000	26,882		7,882
Total revenue	3,062,440	3,062,440	3,052,433	-	(10,007)
Expenditures					
General government support	78,200	73,200	73,069		131
Home and community services	1,518,988	1,465,959	1,427,043		38,916
Employee benefits	413,604	471,633	465,164		6,469
Debt service - interest expense			1,715		(1,715)
Total expenditures	2,010,792	2,010,792	1,966,991	-	43,801
Excess of revenue over expenditures	1,051,648	1,051,648	1,085,442	-	33,794
Other financing uses					
BANS redeemed from appropriations	-	-	(28,000)		(28,000)
Operating transfers out	(1,035,803)	(1,035,803)	(934,640)		101,163
Total other financing uses	(1,035,803)	(1,035,803)	(962,640)	-	73,163
Excess of revenue over expenditures and other financing uses	\$ 15,845	\$ 15,845	\$ 122,802	\$ -	\$ 106,957

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SEWER FUND
AS OF MAY 31, 2007 and 2006

Page 44

	<u>May 31,</u> <u>2007</u>	<u>May 31,</u> <u>2006</u>
Assets		
Cash	\$ 77,063	\$ -
Accounts receivable	596,543	501,013
Total assets	<u>\$ 673,606</u>	<u>\$ 501,013</u>
Liabilities		
Accounts payable	\$ 56,644	\$ 26,441
Accrued liabilities	58,300	44,095
Advances from other funds	890,821	784,896
Due to other funds	-	174,482
Other liabilities/due to other governments	13,667	101,183
Total liabilities	<u>1,019,432</u>	<u>1,131,097</u>
Fund Equity (deficit)		
Unreserved:		
Undesignated (deficit)	(345,826)	(630,084)
Total fund equity (deficit)	<u>(345,826)</u>	<u>(630,084)</u>
Total liabilities and fund equity	<u>\$ 673,606</u>	<u>\$ 501,013</u>

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SEWER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006****Page 45**

	May 31, 2007	May 31, 2006
Revenue		
Departmental income	\$ 2,162,567	\$ 1,677,767
Intergovernmental charges	188,937	223,927
State aid	5,509	3,165
Total revenue	2,357,013	1,904,859
Expenditures		
General government support	67,000	65,000
Home and community services	1,415,657	1,401,879
Employee benefits	404,994	367,015
Debt service - interest expense	74,736	33,547
Total expenditures	1,962,387	1,867,441
Excess of revenue over expenditures	394,626	37,418
Other financing sources (uses)		
BANs redeemed from appropriations	(90,000)	(35,000)
Operating transfers out	(20,368)	(77,140)
Total other financing sources	(110,368)	(112,140)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	284,258	(74,722)
Fund equity (deficit), beginning of year	(630,084)	(555,362)
Fund equity (deficit), end of year	\$ (345,826)	\$ (630,084)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - SEWER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2007

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 2,054,100	\$ 2,054,100	\$ 2,162,567	\$ -	\$ 108,467
Intergovernmental charges	220,500	220,500	188,937		(31,563)
State aid	5,000	5,000	5,509		509
Total revenue	2,279,600	2,279,600	2,357,013	-	77,413
Expenditures					
General government support	69,100	69,100	67,000		2,100
Home and community services	1,621,357	1,596,304	1,415,657		180,647
Employee benefits	385,949	411,002	404,994		6,008
Debt service - interest expense	-	-	74,736		(74,736)
Total expenditures	2,076,406	2,076,406	1,962,387	-	114,019
Excess of revenue over expenditures	203,194	203,194	394,626	-	191,432
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(90,000)		(90,000)
Operating transfers out	(189,104)	(189,104)	(20,368)		168,736
Total other financing sources (uses)	(189,104)	(189,104)	(110,368)	-	78,736
Excess of revenue over expenditures and other financing uses	\$ 14,090	\$ 14,090	\$ 284,258	\$ -	\$ 270,168

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
REVOLVING LOAN FUND
AS OF MAY 31, 2007 and 2006

	<u>May 31, 2007</u>	<u>May 31, 2006</u>
Assets		
Cash on deposit		
Regular accounts	\$ 38,173	\$ 99,859
Due from other funds	-	-
Rehabilitation loans receivable	411,933	351,403
Total assets	<u>\$ 450,106</u>	<u>\$ 451,262</u>
Liabilities		
Deferred revenues	\$ 411,933	\$ 351,403
Due to other agency	17,064	2,524
Total liabilities	<u>428,997</u>	<u>353,927</u>
Fund Equity		
Unreserved:		
Undesignated	21,109	97,335
Total fund equity	<u>21,109</u>	<u>97,335</u>
Total liabilities and fund equity	<u>\$ 450,106</u>	<u>\$ 451,262</u>

CITY OF OLEAN, NEW YORK

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - REVOLVING LOAN FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006**

	<u>May 31, 2007</u>	<u>May 31, 2006</u>
Revenue		
Departmental income	\$ 85,190	\$ 129,481
Use of money and property	210	24
Total revenue	<u>85,400</u>	<u>129,505</u>
Expenditures		
Home and community services	<u>161,626</u>	<u>42,540</u>
Total expenditures	<u>161,626</u>	<u>42,540</u>
Excess (deficiency) of revenue over expenditures	<u>(76,226)</u>	<u>86,965</u>
Other financing uses		
Bad debt expense	<u>-</u>	<u>(49,863)</u>
Total other financing uses	<u>-</u>	<u>(49,863)</u>
Excess (deficiency) of revenue over expenditures and other uses	<u>(76,226)</u>	<u>37,102</u>
Fund equity, beginning of year	<u>97,335</u>	<u>60,233</u>
Fund equity, end of year	<u>\$ 21,109</u>	<u>\$ 97,335</u>

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
HOUSING REHABILITATION FUND
AS OF MAY 31, 2007 and 2006

	May 31, 2007	May 31, 2006
Assets		
Cash on deposit		
Regular accounts	\$ 18,807	\$ 10,042
Rehabilitation loans receivable	24,601	36,984
Total assets	\$ 43,408	\$ 47,026
Liabilities		
Deferred revenues	\$ 24,601	\$ 36,984
Total liabilities	24,601	36,984
Fund Equity		
Unreserved:		
Undesignated	18,807	10,042
Total fund equity	18,807	10,042
Total liabilities and fund equity	\$ 43,408	\$ 47,026

CITY OF OLEAN, NEW YORK

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - HOUSING REHABILITATION FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006**

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	May 31, 2007	May 31, 2006
Revenue		
Departmental income	\$ 20,783	\$ 10,543
Use of money and property	375	454
Total revenue	21,158	10,997
Expenditures		
Home and community services	3,780	2,000
Total expenditures	3,780	2,000
Excess of revenue over expenditures	17,378	8,997
Other financing uses		
Bad debt expense	(8,613)	(8,785)
Total other financing uses	(8,613)	(8,785)
Excess of revenue over expenditures and other uses	8,765	212
Fund equity, beginning of year	10,042	9,830
Fund equity, end of year	\$ 18,807	\$ 10,042

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
FIRST TIME HOMEBUYERS PROGRAM
AS OF MAY 31, 2007 AND 2006

	May 31, 2007	May 31, 2006
Assets		
Cash on deposit		
Regular accounts	\$ 44,391	\$ 151,116
First time homebuyers loans receivable	167,824	146,736
Total assets	\$ 212,215	\$ 297,852
Liabilities		
Deferred revenue	\$ 167,821	\$ 260,656
Due to other funds	5,000	-
Total liabilities	172,821	260,656
Fund Equity		
Unreserved:		
Undesignated	39,394	37,196
Total fund equity	39,394	37,196
Total liabilities and fund equity	\$ 212,215	\$ 297,852

CITY OF OLEAN, NEW YORK

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - FIRST TIME HOMEBUYERS PROGRAM
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006**

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	May 31, 2007	May 31, 2006
Revenue		
Departmental income	\$ 28,410	\$ 20,223
Use of money and property	106	4,742
Federal aid	220,664	354,786
Total revenue	249,180	379,751
Expenditures		
Home and community services	246,982	354,786
Total expenditures	246,982	354,786
Excess of revenue over expenditures	2,198	24,965
Fund equity, beginning of year	37,196	12,231
Fund equity, end of year	\$ 39,394	\$ 37,196

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
AS OF MAY 31, 2007 AND 2006

	May 31, 2007	May 31, 2006
Assets		
Cash on deposit		
Regular accounts	\$ 470,597	\$ (50,799)
Due from Federal and State	173,288	203,528
Due from other funds	2,677,542	3,073,852
Total assets	\$ 3,321,427	\$ 3,226,581
Liabilities		
Accounts payable	\$ 174,611	\$ 629,987
Accrued liabilities/due to other governments	100,000	100,000
Due to other funds	1,109,731	556,927
Bond anticipation notes payable	2,270,000	3,741,000
Total liabilities	3,654,342	5,027,914
Fund Equity		
Unreserved:		
Undesignated (deficit)	(332,915)	(1,801,333)
Total fund equity (deficit)	(332,915)	(1,801,333)
Total liabilities and fund equity	\$ 3,321,427	\$ 3,226,581

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - CAPITAL PROJECTS FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006****Page 54**

	May 31, 2007	May 31, 2006
Revenue		
Use of money and property	\$ 2,323	\$ 57,723
Sales of property and compensation for loss	-	5,700
Miscellaneous local sources	174,700	38,564
Federal aid	1,085,989	286,525
State aid	386,637	251,705
Total revenue	1,649,649	640,217
Expenditures		
General government support	4,331	395,354
Health	-	16,297
Public safety	16,600	-
Transportation	1,659,870	1,009,311
Culture and recreation	-	64,198
Home and community services	52,914	607,550
Total expenditures	1,733,715	2,092,710
Excess (deficiency) of revenue over expenditures	(84,066)	(1,452,493)
Other financing sources (uses)		
Bond anticipation notes redeemed from appropriations	203,000	64,000
Proceeds from issuance of serial bonds net of bond issuance fees	1,268,000	-
Operating transfers in	90,868	50,000
Operating transfers out	(6,585)	(42,898)
Total other financing sources	1,555,283	71,102
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	1,471,217	(1,381,391)
Fund equity (deficit), beginning of year	(1,801,333)	(419,942)
Residual equity transfer	(2,799)	-
Fund equity (deficit), end of year	\$ (332,915)	\$ (1,801,333)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK

BALANCE SHEET - CAPITAL PROJECTS FUND - BY PROJECT

AS OF MAY 31, 2007

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Project Number	Project Description	Cash	Due from Federal & State	Due from Other Funds	Total Assets	Accounts Payable & Accrued Expenses	Due to Other Funds	BAN's/ Notes Payable	Fund Equity (Deficit)	Total Liabilities & Fund Equity
29	CHIPS	\$ 8,561		\$ 30,000	\$ 38,561				\$ 38,561	\$ 38,561
87	Landfill - Olean Airport	14,471		74,364	88,835				88,835	88,835
101	ALARM	(16,239)		25,455	9,216				9,216	9,216
102	Vehicle replacement	327,531			327,531		\$ 33,213		294,318	327,531
115	Airport/parallel taxiway	45,730			45,730		48,646		(2,916)	45,730
116	Fire arson equipment	1,471		10,000	11,471				11,471	11,471
117	Dispatch project	2,929		35,000	37,929				37,929	37,929
118	Ambulance reserve	-		174,334	174,334				174,334	174,334
120	Water filtration plant	(31,477)			(31,477)		217,752		(249,229)	(31,477)
121	East State bridge	3,111		52,070	55,181	\$ 13,379			41,802	55,181
123	Catch basin disconnect project	(1,008,534)		1,887,119	878,585	100,000		\$ 1,370,000	(591,415)	878,585
124	Reservoir replacement project	655,000			655,000		165,487		489,513	655,000
125	Main Street Bridge	51,239			51,239		34,634		16,605	51,239
127	Odor Control/air make-up units	386,695			386,695		369,999	900,000	(883,304)	386,695
130	Airport runway rehab. & lights	228,228			228,228		240,000		(11,772)	228,228
132	Parking lot maintenance program	20,420		2,758	23,178				23,178	23,178
133	Parking lots repaving & rehab	4,571		115,000	119,571				119,571	119,571
137	Telephone System	(236,000)		240,000	4,000				4,000	4,000
139	Airport Building Renovations	12,890	\$ 173,288	31,442	217,620	161,232			56,388	217,620
Totals		\$ 470,597	\$ 173,288	\$ 2,677,542	\$ 3,321,427	\$ 274,611	\$ 1,109,731	\$ 2,270,000	\$ (332,915)	\$ 3,321,427

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
SCHEDULE OF EXPENDITURES-
CAPITAL PROJECTS FUND - BY PROJECT
FOR THE FISCAL YEAR ENDED MAY 31, 2007

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Project	Amount
CHIPS	\$ 202,212
City Alarm	16,600
Vehicle Replacement	69,006
Army Reserve Building	3,761
East State Bridge	35,967
Mount Herman Purchase	2,825
Catch Basin Disconnect Project	40,204
Main Street Bridge Project	1,103,380
Odor Control/Air Make-up Units	12,710
Airport Runway Rehab. & Lights	11,772
Parking Lot Repaving and Rehabilitation	2,114
Telecommunication System	4,330
Airport Building Renovations	235,419
	<u>\$ 1,740,300</u>

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
DEBT SERVICE FUND
AS OF MAY 31, 2007 and 2006

	<u>May 31,</u> <u>2007</u>	<u>May 31,</u> <u>2006</u>
Assets		
Cash on deposit		
Restricted regular accounts	\$ 12,574	\$ -
Due from other funds	21,653	97,571
Total assets	<u>\$ 34,227</u>	<u>\$ 97,571</u>
Liabilities		
Due to other funds	\$ -	\$ 65,256
Total liabilities	<u>-</u>	<u>65,256</u>
Fund Equity		
Reserved for debt	29,227	27,215
Unreserved:		
Designated for subsequent year's expenditures	5,000	5,100
Total fund equity	<u>34,227</u>	<u>32,315</u>
Total liabilities and fund equity	<u>\$ 34,227</u>	<u>\$ 97,571</u>

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - DEBT SERVICE FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2007 AND 2006****Page 58**

	May 31, 2007	May 31, 2006
Revenue		
Use of money and property	\$ 60	\$ 11
Total revenue	<u>60</u>	<u>11</u>
Expenditures		
General government support	19,299	21,921
Debt service:		
Principal	842,616	995,673
Interest	530,406	538,744
Total expenditures	<u>1,392,321</u>	<u>1,556,338</u>
Excess (deficiency) of revenue over expenditures	<u>(1,392,261)</u>	<u>(1,556,327)</u>
Other financing sources		
Operating transfers out	(869)	-
Operating transfers in	1,392,243	1,548,061
Total other financing sources	<u>1,391,374</u>	<u>1,548,061</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(887)	(8,266)
Fund equity, beginning of year	32,315	40,581
Residual equity transfer	2,799	-
Fund equity, end of year	<u>\$ 34,227</u>	<u>32,315</u>

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
AGENCY FUND
AS OF MAY 31, 2007 AND 2006

	May 31, 2007	May 31, 2006
Assets		
Cash on deposit		
Regular accounts	\$ 72,252	\$ 88,604
Restricted accounts	33,022	79,305
Due from other funds	52,520	-
Total assets	\$ 157,794	\$ 167,909
Liabilities		
Due to other funds	\$ 8,273	\$ 8,960
Other liabilities	149,521	158,949
Total liabilities	\$ 157,794	\$ 167,909

CITY OF OLEAN, NEW YORK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND BALANCES - AGENCY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2007

	Balance June 1, 2006	Receipts	Disbursements	Balance May 31, 2007
Hospitalization	\$ 1,684	\$ 393,393	\$ 394,687	\$ 390
NYS retirement	-	4,223	4,223	-
U.S. savings bonds	177	5,383	5,450	110
Combined charities	170	252	422	-
Guarantee and bid bonds	500	1,760	-	2,260
Building improvements - handicapped	787	-	-	787
Civil service exam fees	2,844	130	983	1,991
Bartlett House	8,619	874	-	9,493
Fire equipment donations	3,000	-	-	3,000
Fire imaging equipment	1,105	-	-	1,105
Juvenile police donations	272	-	250	22
Police training room	96	-	-	96
Police training - drugs	5,316	10,060	4,386	10,990
Police federal drug proceeds	9,073	34	6,021	3,086
Youth program donations	57	-	-	57
Tree program	2,530	816	59	3,287
Softball league	3,593	-	3,593	-
Police DARE program	7,078	750	172	7,656
Children's flower garden	474	50	24	500
Concession stand	3,461	31,402	33,814	1,049
Bike auction	674	-	-	674
Youth and recreation	3,322	2,300	1,053	4,569
Youth court	9,755	2,300	3,000	9,055
Kids ID kits	8,000	-	7,816	184
Hospitalization - management	11,744	-	7,977	3,767
Interest & service charges	304	876	26	1,154
Neighborhood watch	479	-	183	296
Mayor's golf cup tournament	3,490	5,247	4,899	3,838
Clerk sales	-	1,710	1,330	380
Airport donations	-	2,498	1,096	1,402
Miscellaneous recreation	-	6,000	4,948	1,052
Flexible spending account	(4,112)	39,572	41,841	(6,381)
Medical savings account	73,079	74,943	66,575	81,447
Payroll account, net	-	9,794,641	9,793,424	1,217
Special account	1,378	16,243	16,633	988
Totals	\$ 158,949	\$ 10,395,457	\$ 10,404,885	\$ 149,521

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2007**

Federal Program Title	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Receivable (Deferred Revenues) 5/31/2006	Total Received	Revenue	Expenditures	Receivable (Deferred Revenues) 5/31/2007
<u>United States Department of Housing and Urban Development</u>								
Community Development Block Grant	14.228	841HO128-04	\$ 400,000	\$ (113,923)	\$ 106,741	\$ 220,664	\$ 220,664	\$ -
<u>United States Federal Emergency Management Agency</u>								
Federal Emergency Management Agency	83.554	EMW-2005-FG-16302	120,000	-	120,000	120,000	120,000	-
<u>United States Federal Aviation Administration/DOT</u>								
Airport Improvement Program Grant	20.106	FAA AIP No. 3-36-0091-06-02 NYS DOT PIN 5904.36	1,288,085	405	10,597	10,192	10,192	-
Airport Improvement Program Grant	20.106	FAA AIP No. 3-36-0091-10-06 NYS DOT PIN 5904.40	2,410,541	-	54,802	223,647	223,647	168,845
Subtotal U.S. Federal Aviation Admin			3,698,626	405	65,399	233,839	233,839	168,845
<u>United States Department of Transportation</u>								
Federal Aid and Marchiselli Aid Project	20.205	NYS DOT/D017581 PIN 5755.95.121	1,352,000	199,985	1,052,135	852,150	852,150	-
Total expenditures			\$ 5,570,626	\$ 86,467	\$ 1,344,275	\$ 1,426,653	\$ 1,426,653	\$ 168,845

Note 1 - Basis of Presentation

The accompanying Schedule of Federal Awards includes Federal grant activity of the City of Olean, New York and is presented on the modified accrual basis of accounting. The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore some amounts in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

See accompanying independent auditors' report.



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

**To the Mayor and Members
of the Common Council
*City of Olean, New York***

We have audited the financial statements of the governmental activities and each major fund of the *City of Olean, New York* as of and for the year ended May 31, 2007, which collectively comprise the *City of Olean, New York's* basic financial statements and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting as described as item II.A.2007-1.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Olean, New York's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards, which is described in the accompanying schedule of findings and questioned costs as item II.B.2007-2.

City of Olean, New York's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *City of Olean, New York's* responses and, accordingly, we express no opinion on them.

We noted other matters involving internal control over financial reporting that we have reported to management of *City of Olean, New York* in a separate letter dated November 20, 2007.

This report is intended for the information of the Common Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 20, 2007**



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**To the Mayor and Members of
the Common Council
*City of Olean, New York***

Compliance

We have audited the compliance of the *City of Olean, New York* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended May 31, 2007. The *City of Olean, New York's* major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Olean, New York's* management. Our responsibility is to express an opinion on the *City of Olean, New York's* compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the *City of Olean, New York's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Olean, New York's* compliance with those requirements.

In our opinion, the *City of Olean, New York's* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2007.

Internal Control Over Compliance

The management of *City of Olean, New York* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *City of Olean, New York's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated November 20, 2007.

This report is intended for the information of the Common Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 20, 2007**

CITY OF OLEAN, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2007

I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses a qualified opinion on the financial statements of the *City of Olean, New York*. The independent auditors' report was qualified because although general fixed assets are valued at estimated historical cost as required by accounting principles generally accepted in the United States of America, an independent appraisal of the City's fixed assets has not been performed in approximately eight years and therefore, the reasonableness of the estimate cannot be determined.
2. There was one significant deficiency noted during the audit of the financial statements as described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This condition is not reported as a material weakness.
3. One instance of noncompliance material to the financial statements of the *City of Olean, New York* was disclosed during the audit as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
4. There were no significant deficiencies disclosed during the audit of the major federal assistance programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal awards programs of the *City of Olean, New York* expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. Major programs tested:

	Type	CFDA #	Federal Expenditures
U.S. Department of Housing and Urban Development Community Development Block Grant	(Type B)	14.227	\$ 220,664
U.S. Department of Transportation Federal Aid and Marchiselli Aid Project	(Type A)	20.205	<u>852,150</u>
			<u>\$ 1,072,814</u>
Total Federal Awards			<u>\$ 1,426,653</u>
Percentage of total programs tested			<u>75.2%</u>

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The *City of Olean, New York* was not determined to be a low-risk auditee.

II. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. Internal Control over Financial Reporting

Year Ended May 31, 2007

2007-1 Purchasing

Year ended June 30, 2007

Condition and criteria: The **City of Olean, New York's** Common Council has developed specific purchasing guidelines, which dictate procedures to be followed prior to the purchase of goods or services. The guidelines call for the City to make a good faith effort to obtain three verbal quotes from vendors prior to a purchase ranging from \$250 - \$3,000. Purchases in excess of \$3,000 require more formal documentation in the form of written quotes and/or request for proposals. We noticed that documentation was not being maintained for verbal quotes as far as when and which vendors were contacted. This made it difficult to substantiate whether or not such policy was being followed. In addition, there were instances when documentation was not maintained to support purchases tested that require written quotes. The City also has a policy whereby the City Auditor is required to approve each voucher for payment. During the year, as a result of the Auditor's position being vacant for a period of time, voucher's lacked signature authorizing payment.

Effect: By not instituting a strong internal control system in the area of purchases and cash disbursements, the City could incur expenditures that were not authorized by the Common Council during the budget process. Also, expenditures may be incurred which do not coincide with management's' expectations.

Auditors' Recommendations: An effective internal control system is necessary in the purchasing of goods and services to provide better control over expenditures. We suggest the City continue communicating its purchase policy with all department heads and develop a practice for documenting verbal and written quotes. In addition, the City should consider appointing a member of Management the authority to approve vouchers for payments in the absence of the City Auditor.

City's Response: The City will enhance its purchasing system by enforcing and strengthening its current procedures for obtaining quotes. In addition, the City will consider formally appointing an individual that would be authorized to approve payments in the City Auditor's absence.

2006-1 Operating Deficits Significantly Exceeding Budgets

Year Ended May 31, 2007

This finding is not being reported upon during the current fiscal year, as the City's general fund's operating deficit was within 1% of that budgeted and the water and sewer funds experienced operating surpluses.

Year ended May 31, 2006

Conditions and criteria: During the current fiscal year, the **City of Olean, New York** experienced operating deficits in its general, water and sewer funds in the amount of approximately \$1,447,000, \$178,000 and \$75,000, respectively. These deficits were significantly different than the original budgets which were all approved as balanced budgets.

Effect: As a result of the current and prior operating deficits, the **City of Olean, New York** had accumulated fund balance deficits in the amount of \$2,280,000, \$258,000 and \$630,000 in its general, water and sewer funds as of May 31, 2006.

Auditors' Recommendation: When developing operating budgets, the **City of Olean, New York** should be conservative in developing estimated revenue and appropriations and should consider increasing its contingency line item in budgeted expenditures. The City should also utilize prior year historical information to gauge budget amounts.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. Internal Control over Financial Reporting (Continued)

2006-1 Operating Deficits Significantly Exceeding Budgets (Continued)

Year Ended May 31, 2006 (continued)

Auditors' Recommendation: As a result of incurring accumulated deficits in its general, water and sewer funds, the City will be required to eliminate structural deficits in operations and begin to build budgets with future operating surpluses. In addition to developing conservative budgets, the City should also take the appropriate measures to ensure that financial information is reported on a regular basis in a timely manner. Financial information such as current revenue and expenditures as compared with that budgeted and in comparison with prior year amounts, should be presented, along with an analysis of fund balance. All budget transfers which are required to be made during the fiscal year should be first presented to the Common Council for approval. Financial information should be presented for all funds of the City of Olean, New York.

The Common Council may wish to consider forming a Finance Committee who is charged with thoroughly reviewing and monitoring the financial position of the City throughout the year.

City's Response: The City of Olean, New York concurs with the auditors' recommendations. As indicated in Note 7 to the financial statements (Accumulated Deficit), based upon preliminary review of the City of Olean, New York's May 31, 2007 budget, performed by the New York State Comptrollers Office, an additional deficit is expected primarily attributed to early retirement incentives that were not budgeted. These incentives will result in future long-term savings, as the respective positions are not being replaced. Management of the City of Olean, New York is in the process of developing a comprehensive long-term plan to bring these funds' accumulated fund equity deficit back to a positive balance. Additionally, pursuant to Article 3, Section 3.079 of the Charter of the City of Olean, New York, the City Auditor will provide to the Common Council monthly financial reports detailing revenues and expenses compared to budget.

B. Compliance

2007-2 Utilization of Proceeds from Bond Anticipation Notes and Serial Bonds Issuances

Year ended May 31, 2007

Conditions and criteria: During the fiscal years ended May 31, 2004 through May 31, 2007, the City's general, water and sewer funds borrowed funds accumulated in the capital projects fund. These funds were related to proceeds received from the issuance of bond anticipation notes and serial bonds for specific capital projects and were utilized to offset both cash flow and operating deficiencies experienced during the year in the general, water and sewer funds.

Effect: The **City of Olean, New York** utilized proceeds from debt issuances for purposes other than those stipulated in the bond resolutions and bond agreements from which funds were borrowed.

Auditors' Recommendation: The **City of Olean, New York** should take the appropriate measures to ensure that funds borrowed by the general, water and sewer funds from the capital project funds related to the issuance of bond anticipation notes and serial bonds are returned to the appropriate capital project funds and are utilized for their intended purpose under the debt agreements. The City should also contact its bond counsel to inform them of the situation and its plan to address the situation.

City's Response: The City of Olean, New York concurs with the auditors' recommendations. As indicated in Note 6 to the financial statements (Accumulated Deficit), Management of the City of Olean, New York is in the process of developing a comprehensive long-term plan. The City of Olean, New York issued Bond Anticipation Notes, under special deficit financing legislation, on September 27, 2007, as outlined in Note 7 to the financial statements (Subsequent Events). A portion of these funds was used to replenish the amounts owed to the Capital Project Fund from the General, Water, and Sewer Funds. Additionally, controls are being developed to prevent this situation from occurring in the future.

Year Ended May 31, 2006

Similar finding was reported upon in prior year.

III. MAJOR FEDERAL AWARD PROGRAMS AUDIT - FINDING

A. Compliance

Year ended May 31, 2007

No compliance findings are being reported upon during the fiscal year ended May 31, 2007.

Year ended May 31, 2006

No compliance findings were reported upon during the fiscal year ended May 31, 2006.

B. Internal control over compliance

Year ended May 31, 2007

No findings related to internal control over compliance are being reported upon during the fiscal year ended May 31, 2007.

Year ended May 31, 2006

No findings related to internal control over compliance were reported upon during the fiscal year ended May 31, 2006.



November 20, 2007

**To the Mayor and Members of
The Common Council
*City of Olean, New York***

Ladies and Gentlemen:

We have completed our 2006-07 audit of the City's financial statements and have issued our reports thereon dated November 20, 2007. Our audit report expressed opinion which states that the City's financial statements are in accordance with generally accepted accounting principles (except for not having a current appraisal to substantiate fixed assets) for governments. In addition, we have issued separate reports on internal controls over financial reporting and compliance with laws and regulations as required by Government Auditing Standards and OMB Circular A-133.

In planning and performing our audit of the financial statements of the *City of Olean, New York* for the fiscal year ended May 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. As noted within the body of such reports, the City generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a summary of additional comments which we desire to bring to the Common Council and management's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff.

We have reviewed the financial statements extensively with the Mayor, City Attorney and City Auditor. We believe these individuals have a good understanding of the financial condition of the City as well as the comments expressed in our annual report. We have enjoyed working with the City this year and wish to thank all of the staff who have assisted us during our audit.

Deficits and Forecasting

General Fund

The *City of Olean, New York's* general fund has experienced operating deficits during the years ended May 31, 2002 through 2007, which accumulates to \$6,060,000 over this time period. Due to current and prior year losses, the City of Olean is left with an unreserved, undesignated fund deficit of \$2,480,000 as of May 31, 2007.

We recommend that the *City of Olean, New York's* management continue to closely review and address the financial problems of the general fund. We believe it is extremely important for the City to bring revenue sources of the general fund in line with expenditures. We suggest that a three to five year forecast be prepared which is followed by a strategic plan to balance general fund operations. If possible, the City should build into the plan funding necessary to build or accumulate fund equity to protect the general fund from any future uncertainties.

In addition, as noted below, the City also has experienced prior year deficits in its sewer and water funds, which have a combined accumulated deficit of approximately \$482,000 as of May 31, 2007. Included in the general fund are amounts advanced to the sewer and water funds in the amounts of approximately \$953,000 and \$891,000, respectively. The City must evaluate whether the sewer and water funds will have the ability to be repay such advances and whether the deficit fund balances will have to be absorbed by the general fund.

Sewer Fund

The *City of Olean, New York's* sewer fund has experienced operating deficits during the years ended May 31, 2002 through 2006, which accumulated to \$419,000 over this time period. As a result, the City of Olean is left with an unreserved, undesignated fund deficit of \$346,000 as of May 31, 2007. We should mention that during the fiscal year ended May 31, 2007, total revenue exceed expenditures by approximately \$284,000.

We recommend that the *City of Olean, New York's* management continue to closely review and address the financial problems of the sewer fund. We believe it is extremely important for the City to bring revenue sources of the sewer fund in line with expenditures. We suggest that a three to five year forecast be prepared which is followed by a strategic plan to stabilize sewer operations. If possible, the City should build into the plan funding necessary to accumulate fund equity to protect the sewer fund from any future uncertainties.

Further, there also exists a significant advance in the sewer fund from the general fund as of May 31, 2007. This advance exists because sewer charges are billed to the residents of the City on a quarterly basis. Although residents are on different billing cycles, charges for such services occur at the end of each cycle. This creates a timing gap for cash flow purposes because cash is received by the City for services it provided during the previous three months. In addition, the advances exist as a result of accumulated operating deficits experienced in prior years. Therefore, the sewer fund's costs associated with such services must be financed with general fund cash. By accumulating fund equity, the sewer fund will not be as reliant on the general fund for cash flows and would be in a better position to reduce this advance.

Water Fund

The *City of Olean, New York's* water fund has experienced operating deficits during the years ended May 31, 2002 through 2006, which accumulated to \$286,000 over this time period. As a result, the City of Olean is left with an unreserved, undesignated fund deficit of \$136,000 as of May 31, 2007.

We would suggest the City to prepare a forecast of future estimated expenditures in the water fund. We believe this is extremely important considering this fund will accumulate significant future long-term debt which was required to finance the new water filtration plant.

Similar to our recommendation for the sewer fund, we suggest that the City develop a strategic plan for its water fund to ensure revenue continues to meet future expenditures. This fund's balance sheet also includes a significant advance from the general fund because of similar circumstances with respect to the billing cycles. Once again, the water fund's cash flow deficiencies would be greatly reduced if the City could begin to accumulate a modest fund equity.

Capital Projects Fund

It is not unusual for capital project funds to have deficit fund balances as a result of the timing of funding for the projects. When projects are initially funded with short-term debt, in the form of a bond anticipation note, the debt is recorded as a liability and creates a temporary fund balance deficit until the bond anticipation notes are redeemed or long-term debt is issued. However, the City has certain capital projects (water filtration plant, airport/parallel taxiway and airport runway rehabilitation and lights) that when closed out will have fund balance deficits. Once closed, the City will be required to make a residual equity transfer from the general fund, which will in turn further reduce the fund equity in the general fund. We recommend that the City reviews the status of all capital project funds, and close out all funds that are no longer operating.

Budgeting

During the fiscal year ended May 31, 2007, the City's budgeted general fund revenue exceeded actual results by approximately \$323,000. Although, this was an improvement over the prior year, when budgeted revenue was in excess of actual results by \$851,000, we recommend that the City remain conservative when estimating anticipated revenue sources.

Allocation of Salaries

During the fiscal year the City allocates a portion of salaries of certain positions (public works director, engineers, etc.) from the general fund to the sewer and water funds. The amounts allocated were based on estimates of time incurred in the various departments. We recommend that the City conduct time studies for these individuals which would document actual time spent in the various categories. This is particularly important because the sewer and water funds are supported by users, whereas the general fund's revenue is derived from real property tax assessments, sales tax and other sources of revenue.

Policies and Procedures

In today's environment it is critical to have good governance and for governmental entities to continually review, update and monitor its policies. We believe it is a prudent practice to periodically review and update policies and procedures of the City. Some of the areas that have received recent scrutiny in the governmental sector which the City may wish to consider reviewing include the following:

- Cell phone regulation and usage
- Meals and refreshments reimbursement
- Credit card usage, regulation and safeguarding
- Personal use of City's assets
- Travel reimbursement policy
- Purchasing policies
- Computer, internet and website usage

In addition, the City should consider establishing the following policies:

- ***Whistleblower policy*** – The purpose of this policy is to establish procedures for receiving and dealing with complaints relating to accounting and auditing and for receiving anonymous complaints. The policy would provide structure to employees of the City in disclosing potential wrongdoing, while protecting such individuals from being disciplined or terminated for reporting actions taken by the employer that might violate the law.
- ***Conflict of interest policy*** – We recommend that the City adopt a formal policy covering potential conflict of interest situations. This policy should identify all business relationships and other dealings between the City and its Common Council, employees and other such parties with whom business is conducted with. The City should also require all Common Council members and members of management to sign a written statement which would identify any business relationships. These written statements should be reviewed and updated on an annual basis.

An important component of the governance process is to ensure that all employees have a full understanding of all policies adopted by the Common Council. As such, the City may wish to include a policy review with members of its staff whereby Management could communicate to the entire staff the importance placed on such policies.

GASB 45

In 2004, the Governmental Accounting Standards Board issued Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The statement requires the City to report, for the first time, post-employment benefits other than pensions (OPEB) as part of current year compensation for services rendered by its employees. In addition to annual OPEB expenses, the City must also accrue a liability in the amount of its unfunded post-employment benefits. This amount must be determined actuarially. The effective implementation date for Municipalities having between \$10 million and \$100 million in revenue must implement the requirements of the Statement for the fiscal year ending June 30, 2009. We recommend that the City take a proactive approach in implementing the standard and begin to determine the potential effect related to this new standard. As part of this process, the City may wish to begin searching for an actuarial firm to perform the calculation. Once the initial calculation is performed, an update will then need to be obtained every two to three years.

Interfund Transfers

Included in the City's annual operating budgets are appropriations for interfund transfers. These transfers primarily relate to amounts to be transferred from the general, water and sewer funds to the debt service fund to pay for the respective funds portion of long-term debt payments. In addition, the City provides for transfers in the general fund to the capital project fund to contribute towards the local share of certain projects which are primarily funded through Federal and State grants. As a result of interfund transfers incurred during the current year being different from that budgeted, we recommend that the future budgets include detail which specifically describes interfund transfers in which the City intends to make during the fiscal year. In addition, any interfund transfers different from that budgeted, should first require Common Council approval.

Journal entries and wire transfers

The City should develop a standardize form which documents the date, amount and purpose of journal entries and wire transfers, which would be completed and signed by the individual initiating the transaction. The City should then designate one individual who would be responsible for reviewing the appropriateness of each journal entry and wire transfer.

Equipment and Inventory

It is extremely important for all entities to have processes in place so that assets are properly safeguarded against loss or misuse. The following are internal controls that the City should consider implementing.

Fuel

The City currently utilizes gasoline tanks stored on-site for fueling its City-owned vehicles. We recommend that access to these gas tanks continue to be strictly enforced, and enhanced if possible. Detailed internal records that document when vehicles are driven, mileage, and the amount of any fuel obtained should be maintained by the City. Gasoline should be routinely inventoried and reconciled with records that document purchases and fuel utilization.

Equipment

An annual inventory of City property and equipment should be performed, with any discrepancies between the physical count and the City's appraisal being investigated and explained. Adherence to this policy is a sound accounting practice that helps to safeguard the City's assets, and limits the possibility of their loss or misappropriation.

Maintenance and Transportation Supplies

Additionally, the City should consider maintaining a perpetual inventory system for its maintenance and transportation supplies. A physical inventory should be performed on an annual basis and compared with the perpetual inventory with any differences investigated. The physical and perpetual inventory reports should be provided to the auditor's office for review.

Fixed Assets

Capitalization Thresholds

We recommend that the City establish a fixed asset capitalization policy whereby equipment and capital improvements with costs exceeding a certain threshold are capitalized. Government Finance Officers Association (GFOA) suggests that the capitalization threshold should ensure that at least 80% of the value of assets are capitalized as fixed assets and that the threshold does not exceed \$5,000. If a higher threshold is selected, the City may wish to maintain an inventory of all assets, however, for insurance purposes only.

Independent Appraisal

We recommend that the City consider having a full appraisal of its fixed assets. By doing so, the City will ensure that there is appropriate insurance coverage, along with complying with the standards required by GASB No. 34, which mandates that fixed assets be reported at estimated cost. As part of the appraisal the City should review estimated useful lives of its assets.

Fixed Asset Reconciliation

Because the City's financial statements now require fixed assets to be reported at cost and to record depreciation, it will be important for the City to reconcile current year capital and equipment additions recorded on its general ledger system with those recorded on the independent appraisal.

Technology

Disaster recovery plan

Ensuring that all IT systems are properly backed up is essential for governmental entities. Although, the City typically performs restore tests throughout the year, there is no formal schedule as to when these backups are performed. We recommend that the City perform backup restore tests on a regular basis, which should be adequately documented. In addition, the City should develop a comprehensive disaster recovery plan which outlines the procedures it would take in the event that all stored data files were lost unexpectedly in its technology plan.

Informal policies

During inquiries, we understand that the City has informal policies which guide personnel in creating and changing employee passwords, suspending terminated employees account access, routine workstation and server audit policy and workstation and workstation data security. The City should attempt to formalize these internal policies.

In addition, the City should identify those individuals that currently have access to various modules within its accounting software. A listing of individuals with rights to perform various accounting transactions should be maintained, reviewed and verified by someone independent of the auditor's office on a regular basis. As part of this process, restrictions should be placed on certain functions such as the individual processing payroll should not have access to the payroll module where changes to pay rates are made.

General Ledger

Currently, the City of Olean records expenditures incurred during the fiscal year in its general ledger software program. The City of Olean, however, utilizes an excel spreadsheet to accumulate and record revenue transactions throughout the fiscal year. During the prior fiscal year, a new accounting software program was purchased, however, it is currently not fully implemented. We suggest that the City attempt to begin recording transactions within its new general ledger software program. We realize that this undertaking would require an initial time commitment from various departments, however, we believe once implemented, efficiency and effectiveness gains would be experienced in future years.

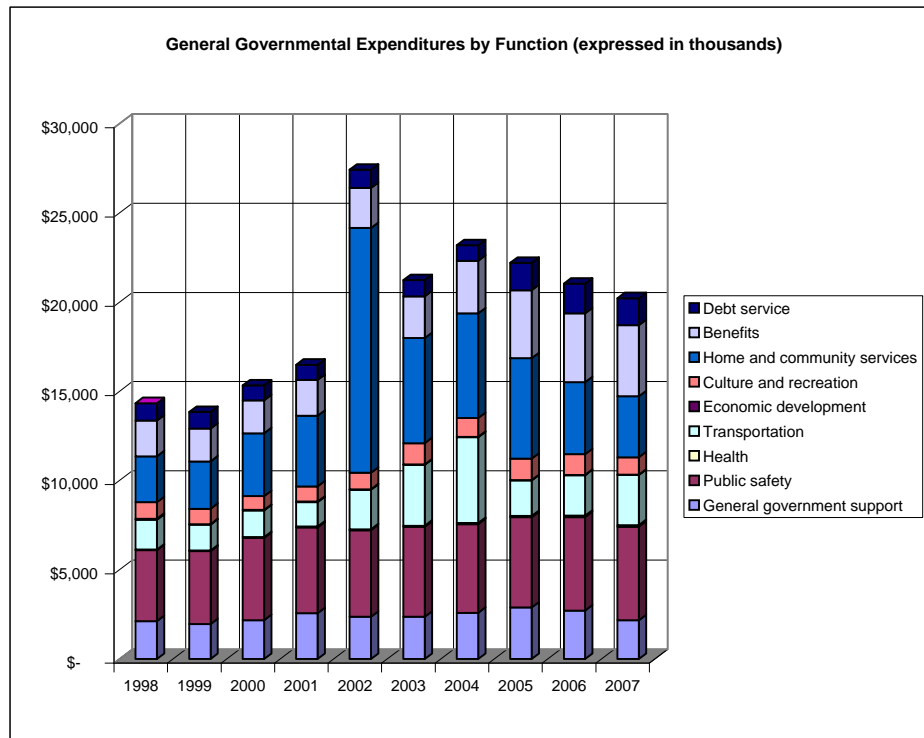
STATISTICAL SECTION

City of Olean
General Governmental Expenditures by Function
 Governmental Funds

Last Ten Fiscal Years
 (amounts expressed in thousands)

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government support	\$ 2,124	\$ 1,953	\$ 2,180	\$ 2,566	\$ 2,369	\$ 2,370	\$ 2,588	\$ 2,885	\$ 2,716	\$ 2,173
Public safety	3,976	4,089	4,604	4,805	4,845	5,030	4,968	5,063	5,239	5,244
Health	35	38	43	53	54	68	61	72	82	84
Transportation	1,665	1,453	1,499	1,367	2,218	3,411	4,809	1,981	2,267	2,810
Economic development	63	26	26	26	26	26	26	26	15	15
Culture and recreation	917	860	772	859	921	1,187	1,050	1,193	1,157	981
Home and community services	2,579	2,654	3,528	3,955	13,723	5,892	5,860	5,637	4,037	3,411
Benefits	1,998	1,835	1,847	2,009	2,242	2,343	2,956	3,808	3,860	3,991
Debt service	976	940	838	846	1,025	904	874	1,530	1,660	1,512
Total	\$ 14,333	\$ 13,848	\$ 15,337	\$ 16,486	\$ 27,423	\$ 21,231	\$ 23,192	\$ 22,195	\$ 21,033	\$ 20,221

Source: City of Olean Annual Report (1998-2007)

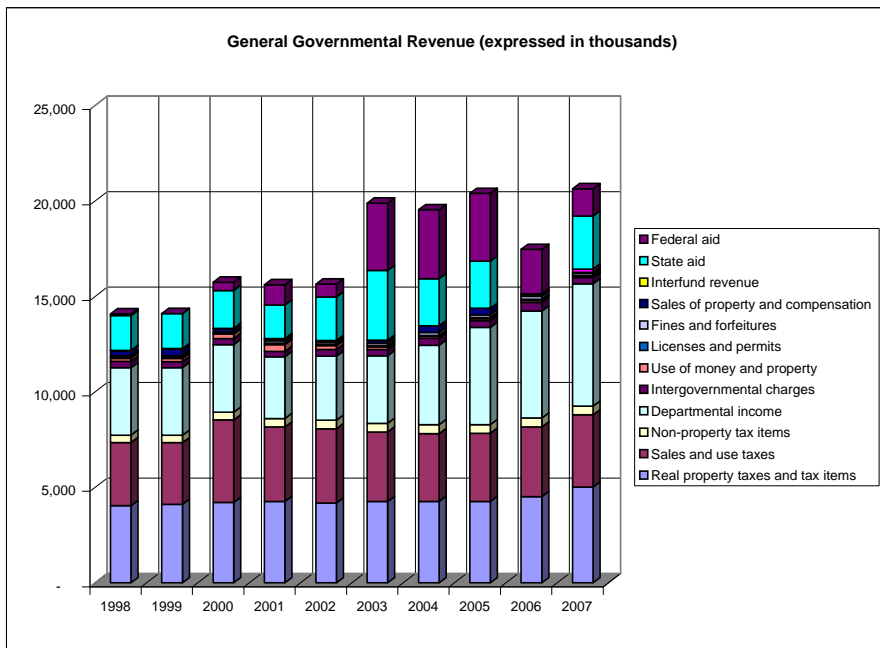


City of Olean
General Governmental Revenues by Source
 Governmental Funds

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Source</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Real property taxes and tax items	\$ 4,041	\$ 4,113	\$ 4,207	\$ 4,263	\$ 4,179	\$ 4,254	\$ 4,262	\$ 4,262	\$ 4,518	\$ 5,013
Sales and use taxes	3,306	3,226	4,322	3,896	3,884	3,642	3,550	3,569	3,642	3,784
Non-property tax items	390	386	404	441	451	459	474	455	468	454
Departmental income	3,521	3,543	3,541	3,233	3,350	3,531	4,152	5,082	5,599	6,409
Intergovernmental charges	339	309	315	292	352	337	366	359	464	327
Use of money and property	156	166	230	355	202	128	103	104	95	70
Licenses and permits	82	75	61	70	85	64	59	59	64	54
Fines and forfeitures	58	69	69	116	103	130	142	142	150	110
Sales of property and compensation	260	347	153	101	41	124	355	347	21	37
Miscellaneous local sources	25	31	28	29	50	43	-	-	55	175
Interfund revenue	-	-	-	-	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-	-	59	-
State aid	1,815	1,825	1,982	1,750	2,270	3,640	2,463	2,460	2,324	2,774
Federal aid	91	7	430	1,066	679	3,530	3,611	3,551	606	1,426
	<u>\$ 14,084</u>	<u>\$ 14,097</u>	<u>\$ 15,742</u>	<u>\$ 15,612</u>	<u>\$ 15,646</u>	<u>\$ 19,882</u>	<u>\$ 19,537</u>	<u>\$ 20,390</u>	<u>\$ 18,065</u>	<u>\$ 20,633</u>

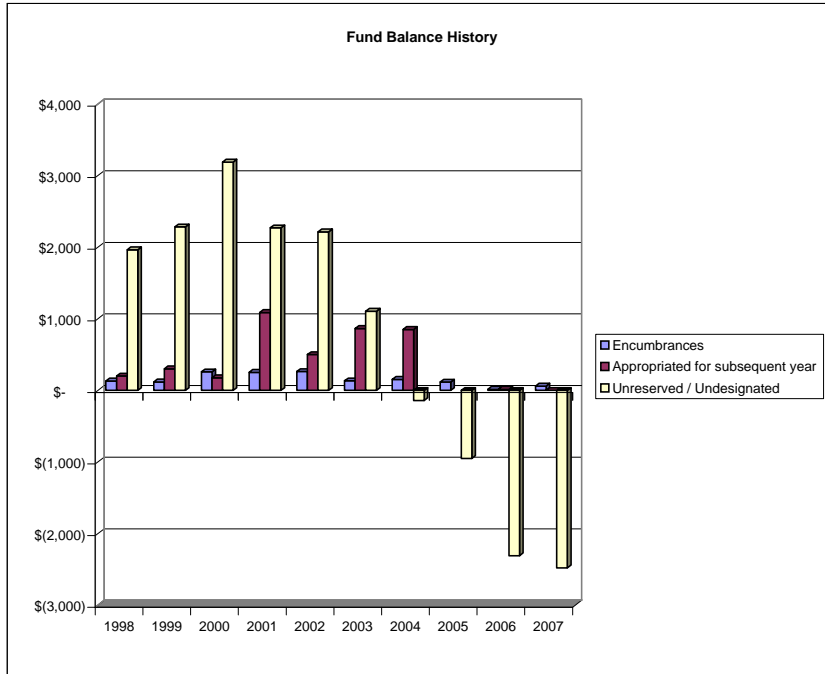
Source: City of Olean Annual Report (1998-2007)



City of Olean
Fund Balance History
 General Fund

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Source</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Encumbrances	\$ 132	\$ 117	\$ 258	\$ 253	\$ 264	\$ 134	\$ 154	\$ 116	\$ 14	\$ 59
Appropriated for subsequent year	200	300	175	1,087	500	864	850		15	-
Unreserved / Undesignated	1,964	2,284	3,188	2,270	2,215	1,107	(141)	(949)	(2,309)	(2,480)
Total	\$ 2,296	\$ 2,701	\$ 3,621	\$ 3,610	\$ 2,979	\$ 2,105	\$ 863	\$ (833)	\$ (2,280)	\$ (2,421)



Source: City of Olean Annual Report (1998-2007)

City of Olean
Assessed and Equalized Full Value of Taxable Property (1)

Last Ten Fiscal Years
 (amounts expressed in thousands)

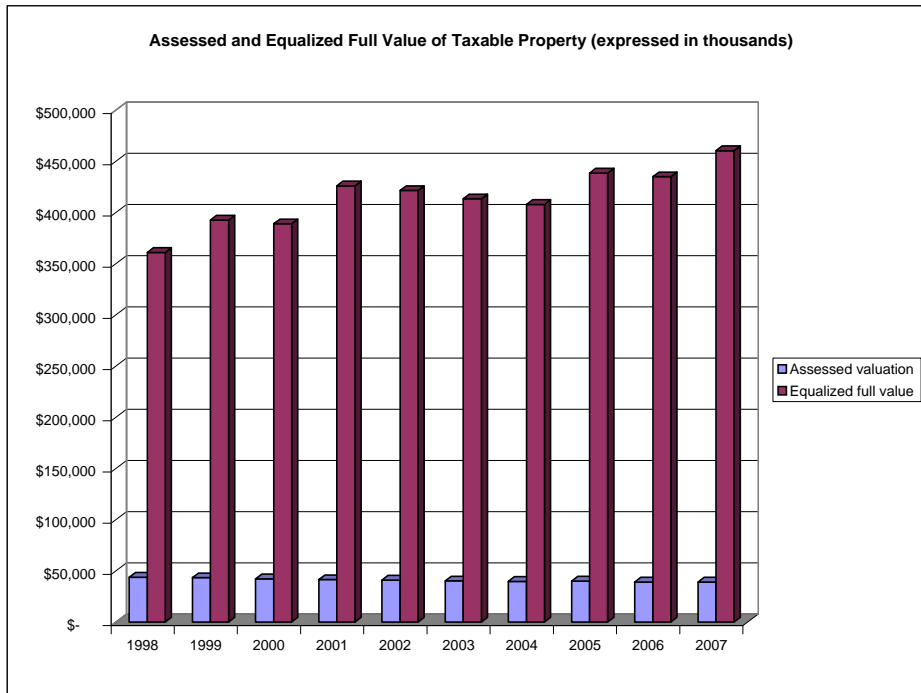
Source

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Assessed valuation	\$ 43,914	\$ 43,425	\$ 42,367	\$ 41,557	\$ 41,107	\$ 40,319	\$ 39,782	\$ 40,052	\$ 39,154	\$ 39,141
Equalized full value	361,135	392,631	389,045	426,226	421,610	413,528	408,021	438,686	435,044	460,482
Ratio: Assessed value to equalized full value	<u>12.16%</u>	<u>11.06%</u>	<u>10.89%</u>	<u>9.75%</u>	<u>9.75%</u>	<u>9.75%</u>	<u>9.75%</u>	<u>9.13%</u>	<u>9.00%</u>	<u>8.50%</u>

Notes:

- (1) Equalization rates are provided by New York State and applied by the City to the assessed valuation of taxable real estate to arrive at equalized full value which is comparable to estimated actual value. Taxable values are used from the preceding years assessment rolls.

Source: City of Olean Annual Report (1998-2007)



**City of Olean
Ratio of General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita**

Last Ten Fiscal Years

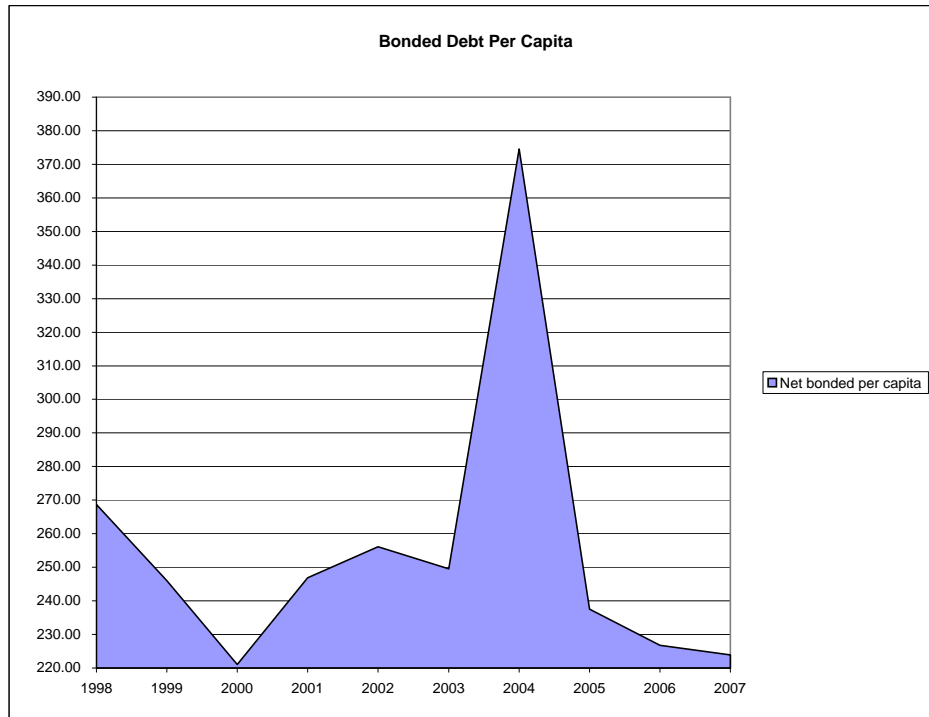
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<u>Source</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net bonded per capita	268.70	246.02	221.09	246.89	256.14	249.50	374.54	237.57	226.75	223.95
Population	16,915	16,877	16,839	15,347	15,347	15,347	15,347	15,347	15,347	15,347
Assessed value (000)	43,914	43,425	42,367	41,557	41,033	40,319	39,782	40,052	39,154	39,141
Gross bonded debt (000)	5,521	5,020	4,685	5,131	15,427	15,523	19,022	20,278	20,565	23,022
Less: self-supporting debt (000)	976	868	962	1,342	11,496	11,694	13,274	16,632	17,085	19,585
Net bonded debt (000)	4,545	4,152	3,723	3,789	3,931	3,829	5,748	3,646	3,480	3,437
Ratio of net bonded debt to assessed value	<u>10.35%</u>	<u>9.56%</u>	<u>8.79%</u>	<u>9.12%</u>	<u>9.58%</u>	<u>9.50%</u>	<u>14.45%</u>	<u>9.10%</u>	<u>8.89%</u>	<u>8.78%</u>

Notes:

Self-supporting debt includes water debt

Sources: Population (1998-1999) were obtained via the "Self-Portrait of Cattaraugus County" prepared by the Cattaraugus County Department of Economic Development, Planning and Tourism.
Population (2000-2007) were obtained from the 2000 census
Assessed value amounts were obtained via the City Assessor's office.
Debt amounts were obtained via the City Auditor's report 1998-2007



City of Olean
 Ratio of General Obligation Debt Service to
 Total General Expenditures

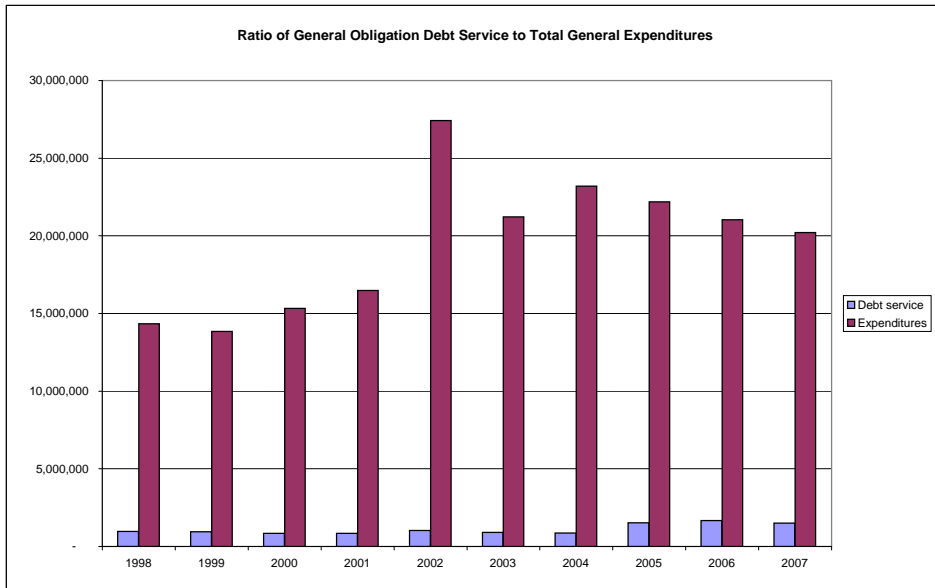
Last Ten Fiscal Years

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Source	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt service	976,000	940,000	838,000	846,000	1,025,000	904,000	874,000	1,530,000	1,660,000	1,512,000
Expenditures	14,333,000	13,848,000	15,337,000	16,486,000	27,423,000	21,231,000	23,192,000	22,195,000	21,033,000	20,221,000
Ratio of general debt service to total general expenditures	6.81%	6.79%	5.46%	5.13%	3.74%	4.26%	3.77%	6.89%	7.89%	7.48%

Notes:

- (1) Debt service amounts shown include payments made from all governmental fund types
- (2) General expenditures include amounts recorded in the general, special revenue, capital projects and debt service funds for all years.



**City of Olean
Principal Taxpayers**

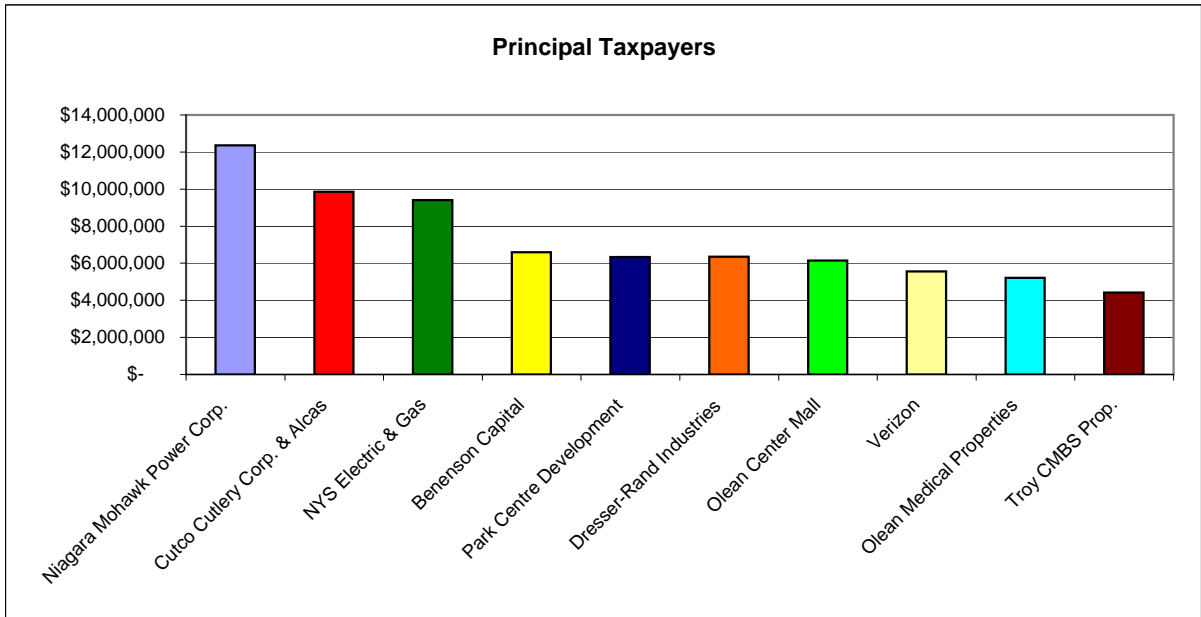
Fiscal Year Ended May 31, 2007

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<u>Taxpayer</u>	<u>Type of Business</u>	<u>Estimated Equalized Full Value</u>	<u>Percentage of Equalized Full Value</u>
Niagara Mohawk Power Corp.	Public Utility	\$ 12,361,871	2.68%
Cutco Cutlery Corp. & Alcas	Manufacturing	9,863,176	2.14%
NYS Electric & Gas	Public Utility	9,401,765	2.04%
Benenson Capital	Food/Retail	6,600,941	1.43%
Park Centre Development	Real Estate	6,333,388	1.38%
Dresser-Rand Industries	Manufacturing	6,360,118	1.38%
Olean Center Mall	Shopping Mall	6,153,800	1.34%
Verizon	Public Utility	5,566,953	1.21%
Olean Medical Properties	Health Care	5,219,412	1.13%
Troy CMBS Prop.	Large Retail	4,413,118	0.96%
Total		\$ 72,274,542	15.70%

Note:

Percentage of equalized full value is calculated by dividing the valuation shown for each of the listed taxpayers by the City's total equalized full value of \$460,479,235



**City of Olean
Principal Employers for the City of Olean**

<u>Employer</u>	<u>Type of Activity</u>	<u>Approximate # of Employees</u>
Olean General Hospital	Medical Facility	900
Dresser Rand	Manufacturing	700
Alcas Corp (CUTCO Cutlery Corp.)	Manufacturing	669
The ReHabilitation Center	Services	530
Olean Center Mall	Retail Shops	400
Olean School District	Education	350
Henkel Locktite Corp.	Manufacturing	300
Dal Tile International, Inc.	Manufacturing	262
Subcon Industries	Handicap Workshop	250
Olean Medical Group	Health Care	200
Olean YMCA	Fitness	200

Source: Greater Olean Area Chamber of Commerce, 2006

