

CITY OF OLEAN, NEW YORK

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE
FISCAL YEAR ENDED MAY 31, 2008
WITH INDEPENDENT AUDITORS' REPORT**

CITY OF OLEAN, NEW YORK

MAY 31, 2008

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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, 2008, 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, 2007 financial statements and, in our report dated November 20, 2007; 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 nine years and therefore, the reasonableness of this estimate cannot be determined. In addition, the infrastructure of the City is not fully included in the estimated historical costs which is required under GASB 34.

In our opinion, except for the effects of not having a current appraisal of the City's general fixed assets, including infrastructure, 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, 2008, 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 October 16, 2008 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 important for assessing 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 opinions 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
October 16, 2008**

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, 2008. 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, 2008:

- Overall net assets of the City increased approximately \$4,537,000 during the 2007-08 fiscal year.
- Total net assets of the City as of May 31, 2008 amounted to approximately \$13,425,000.
- The City's total revenue increased approximately 14% from \$20,633,000 during the fiscal year ended May 31, 2007 to \$23,450,000 during the fiscal year ended May 31, 2008. This increase was primarily the result of an increase in real property taxes, as well as usage fees associated with the water and sewer. Increased revenues from sales tax, State Revenue Sharing (AIM), and interest income also contributed to the overall increase.
- The City's total expenses decreased approximately 3% from \$19,581,000 during fiscal year ended May 31, 2007 to \$18,913,000 during the fiscal year ended May 31, 2008. This decrease was primarily related to Police Personal services, including wages and retirement incentives. Also reduced charges for retirement plans and health insurance charges also played a significant roll in reducing expenditures. This decrease was partially offset by general cost increases, with particular notice given to increasing costs in gas, electric, and oil.
- The City incurred capital costs in the amount of approximately \$2,942,000 primarily related to airport renovations and work performed on the City's East State Bridge.
- The general fund reported an overall deficit fund balance of approximately \$910,000 as of May 31, 2008.

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

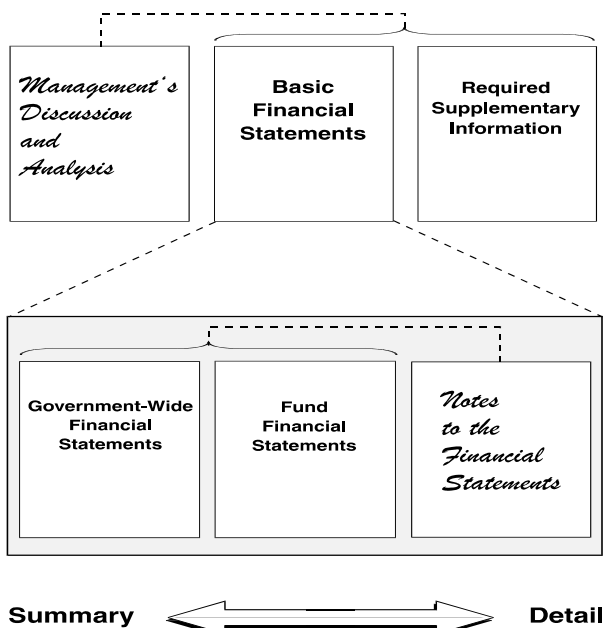
Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending.

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

	Government-wide	Fund Financial Statements	
		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 \$4,537,000 or 51%. The components of net assets include: invested in capital assets, net of related debt of \$14,905,000; restricted net assets of \$530,000; and unrestricted net assets deficit of \$-2,010,000 as of May 31, 2008.

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

Changes in Net Assets

The City's total government-wide revenue was \$23,450,000. Approximately 24%, 19%, and 45% 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 \$18,913,000 for the fiscal year ended May 31, 2008. The City's expenses cover a range of services, with 13%, 28%, 10%, and 20% 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 24% of the City's total revenue for governmental activities. Total property taxes increased approximately \$908,000 or 19% during the current fiscal year. This increase was primarily the result of a 19% increase in the tax rate for the 2007-08 fiscal year, as well as an increase in the tax roll of approximately \$37,000.
- One of the City's most significant general revenue is non-property taxes, which represents \$4,461,000 or 19% of total governmental revenue. Total non-property taxes increased approximately \$223,000 or 5% as a result of an increase in sales tax revenues.
- The City's program revenue totaled approximately \$10,508,000. Program revenue consists of charges for services in the amount of \$7,709,000, which is primarily related to revenue received in the special funds of approximately \$6,143,000. 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 \$178,000, which relate to grants totaling \$46,000 for public safety (court security and facility aid), transportation grant of \$109,000 (NYS Mass Transit) and cultural and recreation grants of \$23,000 (youth bureau) and capital grants and contributions in the amount of \$2,621,000, 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 decreased approximately 39% during the current fiscal year, as a result of one-time grant funding received in the prior year, which was not received during the current year. Lastly, capital grants and contributions increased approximately 59% during the current year, which was primarily related to funds received in the current year for reconstruction of East State Bridge and Airport renovation projects.

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 \$18,913,000.

- The City's general governmental support was approximately \$2,551,000 or 13% 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 increased approximately 9% partially as a result of negotiated wage increases for the 2006-07 fiscal year that were deferred to the 2007-08 fiscal year.
- The City's public safety costs were approximately \$5,330,000 or 28% of total expenditures. These expenditures consist primarily of costs attributable to the fire and police departments. Total costs for public safety decreased 5% during the current year, due to unfilled vacant positions resulting from retirements within the police and fire departments.

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

Expenses (continued)

- Transportation costs of the City were approximately \$1,936,000 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 2% during the current year as a result of an increase in capital fund transportation costs, including resurfacing of various roads. CHIPS funding increased approximately \$370,000 as compared to the previous fiscal year and the reconstruction and repaving of City streets that was undertaken in the current fiscal year, did not occur in the prior 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 \$919,000 or 5% 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 13% which was primarily related to a decrease in personal service costs associated with unfilled positions resulting from retirements, as well as fewer part-time workers hired by the Recreation Department during the current fiscal year.
- Home and community services costs were approximately \$3,394,000 or 18%. 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 5% during the current year, which was primarily related to costs associated with taking over operations of the Olean Area Transit System.
- Employee benefit costs were approximately \$3,784,000 or 20% of total expenditures. These expenditures consist primarily of social security benefits, health insurance benefits, workmen's compensation benefits and pension costs. Total employee benefit costs decreased approximately 13% during the current fiscal year primarily as a result of the retirement incentives offered by the City each of the past two years. 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 \$891,000. 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

City of Olean, New York Condensed Statement of Net Assets As of May 31, (in thousands of dollars)			
	2008	2007	Change
Assets			
Current and other assets	\$ 15,422	\$ 9,184	68%
Capital Assets	33,029	31,448	5%
Total assets	\$ 48,451	\$ 40,632	19%
Liabilities			
Other liabilities	\$ 6,635	\$ 6,080	9%
Long-term debt outstanding	28,391	25,664	11%
Total liabilities	35,026	31,744	10%
Net Assets			
Invested in capital assets, net of related debt	14,905	12,140	23%
Restricted	530	29	1727%
Unrestricted (deficit)	(2,010)	(3,281)	-39%
Total net assets	13,425	8,888	51%
Total liabilities and net assets	\$ 48,451	\$ 40,632	19%

Figure A-4 – Condensed Statement of Activities

City of Olean, New York Condensed Statement of Activities For the Year Ended May 31, (in thousands of dollars)			
	2008	2007	Change
Revenue			
Program Revenue			
Charges for services	\$ 7,709	\$ 7,172	7%
Operating grants	178	293	-39%
Capital grants & contributions	2,621	1,647	59%
General Revenue			
Real property taxes	5,728	4,820	19%
Special assessment tax - real property	2	3	-21%
Real property tax items	224	190	18%
Non-property tax items	4,461	4,238	5%
Use of money and property	185	61	203%
Sales of property & compensation for loss	-	-	
Miscellaneous local sources	-	-	
State aid	2,341	2,209	6%
Total revenue	23,450	20,633	14%
Expenses			
General government support	2,551	2,340	9%
Public safety	5,330	5,590	-5%
Health	92	90	2%
Transportation	1,936	1,892	2%
Economic development	16	16	2%
Culture and recreation	919	1,062	-13%
Home and community services	3,394	3,590	-5%
Employee benefits	3,784	4,329	-13%
Debt service	891	672	33%
Total expenses	18,913	19,581	-3%
Change in net assets	\$ 4,537	\$ 1,052	

Figure A-5 – Governmental Sources of Revenue

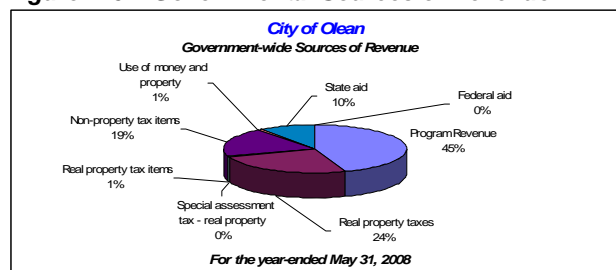
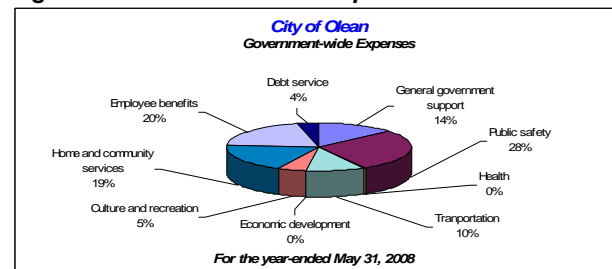


Figure A-6 – Governmental Expenses



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 revenues exceeded its expenditures by approximately \$1,511,000 during the year ended May 31, 2008.
- The City's general fund undesignated, unreserved deficit fund balance equated to approximately \$1,058,000 as of May 31, 2008.
- The City had a reserve for encumbrances as of May 31, 2008, which approximated \$148,000.
- The total assets for the City's general fund were \$11,619,000 which increased approximately \$3,698,000 during the current year, primarily related to an increase in cash related to a deficit financing Bond Anticipation Note issued and outstanding as of May 31, 2008. The City's general fund liabilities as of May 31, 2008 were \$12,529,000 which increased approximately \$2,188,000 during the current fiscal year, primarily related to the bond anticipation note which was outstanding as of May 31, 2008.

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

General Fund (continued)

- The City's total revenue in the general fund increased approximately \$1,443,000 or 11% 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 and other uses in the general fund decreased approximately \$208,000 or 2% which was primarily related to unfilled vacancies in the Police Department. Additionally, reductions required contributions in the City's retirement plan and health insurance had a significant role in reducing the overall costs. These decreases were partially offset by general cost increases, with particular notice given to increasing costs associated with gas, electric, and oil.

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 \$6,143,000 which increased \$378,000 primarily related to increased revenues in the water fund (\$478,000) and in the sewer fund (\$86,000). The increased revenues in these funds were offset by the decrease in revenue in the first time homebuyers' fund (\$207,000). These increases were directly related to increases of water and sewer rates during the current fiscal year as well as increased usage from a major energy producing entity. Total expenditures and other uses were \$5,331,000 which decreased \$98,000 primarily related to fewer loans granted during the current fiscal year from the first time homebuyers' fund and the revolving loan fund.

Debt Service Fund

- The City's current fiscal year revenue and other sources were \$1,692,000 which increased approximately \$300,000 and was primarily related to increased debt repayment requirements. Expenditures during the current year amounted to \$1,681,000 which increased approximately \$289,000. The approximate difference of \$11,000 between revenue and expenditures relates to interest earned on the deposits.

Capital Projects Fund

- During the current year, the City incurred total costs in the capital projects fund in the amount of \$3,351,000. Such costs were primarily related to costs associated with the City's replacement of its East State Bridge (\$508,000), improvements to the airport (\$1,476,000) and the City's CHIPS program (\$569,000).

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 \$843,000 below the revised budget. The most significant variances were in the areas of employee benefits and public safety which totaled approximately \$420,000 and \$242,000, respectively, below that budgeted. On the other hand, resources available for appropriations were approximately \$727,000 above the final budgeted amount. Significant variance of revenue items consisted of non-property tax items and departmental income that were approximately \$445,000 and \$133,000, respectively, above that budgeted.

VII. Capital Asset and Debt Administration

Capital Assets

As of May 31, 2008, the City had a net investment of \$33,029,000 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, 2008, totaled approximately \$2,942,000 and consisted primarily of costs associated with the East State Bridge project and airport renovations. 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, 2008, the City had approximately \$28,648,000 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, 2008</i> <i>(in thousands of dollars)</i>			
Revenue	Revised Budget	Actual	Difference
Real property taxes	\$ 5,728	\$ 5,728	\$ -
Special assessment tax - real property	7	2	(4)
Real property tax items	170	224	54
Non-property tax items	4,016	4,461	445
Departmental income	1,094	1,227	133
Intergovernmental charges	189	167	(22)
Use of money and property	61	164	103
Licenses and permits	49	52	3
Fines and forfeitures	100	108	8
Sales of property and comp for loss	7	9	2
Miscellaneous local sources	1	-	(1)
State aid	2,515	2,519	4
Federal aid	-	-	-
Other financing sources	-	-	-
Transfer from other funds	-	-	-
Total revenue	<u>\$ 13,935</u>	<u>\$ 14,662</u>	<u>\$ 727</u>
Expenses			
General government support	\$ 2,259	\$ 2,130	\$ 129
Public safety	5,105	4,863	242
Health	84	85	(0)
Transportation	1,284	1,260	23
Economic development	15	15	-
Culture and recreation	955	857	98
Home and community services	99	104	(5)
Employee benefits	3,270	2,850	420
Debt service	176	239	(63)
Other financing uses	-	-	-
Transfer to other funds	747	748	(1)
Total expenses	<u>\$ 13,994</u>	<u>\$ 13,151</u>	<u>\$ 843</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 significant increases in its Real Property Revenues in the past few years. These increases are directly related to the increased rates adopted by the Common Council of the City of Olean. For the 2008-09 fiscal year, the Council adopted a budget, and tax increase of approximately 11%.
- The City has not prepared a citywide assessment on real properties since 1962. This has caused the property valuations utilized in the preparation of real property tax bills to be outdated and inadequate. To remedy this problem, the Administration is about half way through a reassessment plan to bring all properties to 100% assessment. The Administration feels that this reassessment will result in the fair and equitable taxation of all properties, and also, the City will not have to rely on the State equalization rate.

VIII. Factors bearing on the City's Future (continued)

- The City has also seen an industrial base decrease, which effects employment in the area. Manufacturing is moving production overseas and therefore, either closing plants or reducing work staffs. 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 the issue. Decreased employment has a trickle down effect, which causes reductions in new housing construction, housing sales and values, and overall population. However, in the past year some new business developments have entered the City of Olean. A call center opened, with hopes of employing several hundred individuals. Also a local manufacturing plant announced plans to build a new testing facility and office building within the City, bringing at least 150 engineering jobs to the area. Construction has commenced on these buildings. Finally, the City planning board has approved several retail venues, including restaurants, large chain drug stores, and durable good retailers. It is expected that many of these retailers will open up for business within the next fiscal year.
- State mandated pension contributions are effected by investment performance of the Retirement System. The expected long term rate assumes an annual return on investment of 8%. If the fund performs better than the expected long-term rate, the contribution to the plan will be lower than if the fund performs poorly. In the 1990's and early in this decade, the City's contributions were unusually low because of exceptional fund performance. In 2004, the performance was falling short of target, and the contribution rates skyrocketed over one million dollars per year. In the past few years the City has seen its contribution decrease in connection with decreases in employment totals, but the contribution percentage remains high. The City does not expect, nor has it been informed by the State, that these rates are to be reduced at any time in the near future.
- The City incurred substantial debt relative to the upgrade of the water facilities. The City may also need to borrow additional funds to fix problems caused by aging infrastructure related to the wastewater treatment plant and intake system. In addition, the Common Council has agreed to borrow \$7 million to finance the 2-mile intercept and East State Sewer Projects. Therefore, with the State and external auditors' continued recommendations, it is imperative that the Water and Sewer funds be self sufficient, and that a surplus be established to finance future system maintenance and improvements.

VIII. Factors bearing on the City's Future (continued)

- On September 27, 2007, the City of Olean issued \$4,300,000 in Bond Anticipation Notes, under special Home Rule legislation. The purpose of the legislation is to finance the accumulated deficit established in the General, Water, Sewer, and Capital Funds through May 31, 2007. The bond anticipation notes were renewed on September 25, 2008 for approximately \$3,031,000. Once the short-term notes are converted to long term bonds, the negative fund balances in the fund financial statements will be eliminated.
- The City has contracted a private engineering firm to perform an energy audit, to identify potential projects that can reduce energy costs or increase revenues for the City, by increasing energy efficiencies. Although the scope of the work has not been explicitly defined, it is estimated the total cost of the project will be \$5,600,000. The form guarantees cost savings/revenue increases to cover the debt repayment. The most significant project the City is considering is the replacement of the water meters. This project represents approximately 40% of the cost of the total project. It is anticipated that the projects will begin within the next year.

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, CPA, 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	2008	2007
Cash on hand	\$ 1,348	\$ 1,348
Cash on deposit		
Regular accounts	11,751,215	5,934,746
Receivables		
Refuse and garbage	794	1,383
Special assessment	11,256	15,542
Accounts receivable	1,591,949	1,693,117
State and federal	1,353,797	822,239
Due from other governments	98,142	111,742
Revolving loans receivable	454,973	411,933
First Time Homebuyers loans receivable	149,716	167,824
Rehabilitation loans receivable	8,743	24,601
Capital assets, net	33,028,879	31,447,772
Total assets	<u>\$ 48,450,812</u>	<u>\$ 40,632,247</u>
Liabilities		
Payables		
Accounts payable	\$ 1,029,932	\$ 419,177
Accrued liabilities	724,523	998,929
Due to other funds	39,247	44,247
Other liabilities	203,709	212,938
Deferred revenue	4,637,436	4,405,105
Long-term liabilities		
Portion due or payable within one year		
Due to other governments	23,282	23,050
Revenue anticipation notes payable	3,500,000	3,800,000
Bond anticipation notes payable	6,470,000	2,270,000
NYS EFC notes	275,000	265,000
Serial bonds payable	805,000	819,000
Environmental liability	225,000	225,000
Retirement incentive	276,000	131,922
Compensated absences	170,000	170,000
Portion due or payable after one year		
Due to other governments	142,617	165,899
NYS EFC notes	6,240,000	6,515,000
Serial bonds payable	8,634,000	9,439,000
Environmental liability	761,000	1,018,000
Retirement incentive	523,813	410,383
Compensated absences	345,769	411,796
Total liabilities	<u>35,026,328</u>	<u>31,744,446</u>
Net Assets		
Investment in capital assets, net of related debt	14,904,879	12,139,772
Restricted for		
Reserved for debt	529,910	29,227
Unrestricted:		
Designated	226,784	64,370
Undesignated (deficit)	(2,237,089)	(3,345,568)
Total net assets	<u>13,424,484</u>	<u>8,887,801</u>
Total liabilities and net assets	<u>\$ 48,450,812</u>	<u>\$ 40,632,247</u>

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

<i>Functions/Programs</i>	Program Revenues				2008	2007
	Expenses	Charges for Services	Operating Grants	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
General government support	\$ 2,550,653	\$ 239,381	\$ -	\$ 296,387	\$ (2,014,885)	\$ (2,092,431)
Public safety	5,330,296	193,075	45,287	21,004	(5,070,930)	(5,230,617)
Health	92,594	664,556	-	-	571,962	491,787
Transportation	1,935,632	341,975	109,118	2,066,184	581,645	90,757
Economic development	16,359	8,081	-	-	(8,278)	(6,376)
Culture and recreation	918,662	233,454	23,208	-	(662,000)	(826,468)
Home and community services	3,393,743	4,794,278	-	237,499	1,638,034	787,994
Employee benefits	3,784,053	1,087,554	-	-	(2,696,499)	(3,130,942)
Debt service - interest & issuance fees	891,546	146,950	-	-	(744,596)	(551,966)
Total functions and programs	\$ 18,913,538	\$ 7,709,304	\$ 177,613	\$ 2,621,074	(8,405,547)	(10,468,262)
General Revenues						
Real property taxes					5,727,882	4,820,419
Special assessment tax - real property					2,380	2,624
Real property tax items					224,299	189,837
Non-property tax items					4,461,486	4,237,991
Use of money and property					185,111	61,333
State aid					2,341,072	2,208,639
Total general revenues					12,942,230	11,520,843
Change in net assets					4,536,683	1,052,581
Net assets - beginning of year					8,887,801	7,835,220
Net assets - end of year					\$ 13,424,484	\$ 8,887,801

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

	Major Funds				Non-Major Funds		2008	2007
	General	Water	Sewer	Debt Service	Capital Project Funds	Special Revenue Funds	(Memo only) Total	(Memo only) Total
Assets								
Cash on hand	\$ 1,308	\$ 40					\$ 1,348	\$ 1,348
Cash on deposit								
Regular accounts	10,052,400	45,732	\$ 44,655	\$ 534,910	\$ 943,430	\$ 130,088	11,751,215	5,934,746
Receivables								
Refuse and garbage	794						794	1,383
Special assessment	11,256						11,256	15,542
Accounts receivable	214,358	787,557	590,034				1,591,949	1,693,117
Due from other funds	2,716			-	237,216	-	239,932	2,712,468
Advances to other funds	641,496						641,496	1,843,884
State and federal	695,154				658,643	-	1,353,797	822,239
Revolving loans receivable						454,973	454,973	411,933
First Time Homebuyers loans receivable						149,716	149,716	167,824
Rehabilitation loans receivable						8,743	8,743	24,601
Total assets	\$ 11,619,482	\$ 833,329	\$ 634,689	\$ 534,910	\$ 1,839,289	\$ 743,520	\$ 16,205,219	\$ 13,629,085
Liabilities								
Accounts payable and retainage payable	\$ 180,149	\$ 77,863	\$ 93,875		\$ 678,045	\$ -	\$ 1,029,932	\$ 419,177
Accrued liabilities	555,812	70,204	54,507		100,000	-	780,523	1,042,529
Due to other funds	83,858	-	190,321			5,000	279,179	2,756,715
Advances from other funds	-	283,421	358,075			-	641,496	1,843,884
Due to employee retirement system	148,333	14,167	11,667			-	174,167	186,600
Other liabilities	1,241					28,301	29,542	26,338
Deferred revenue	4,024,007					613,429	4,637,436	4,405,105
Revenue anticipation notes payable	3,500,000						3,500,000	3,800,000
Bond anticipation notes payable	4,036,083				2,433,917	-	6,470,000	2,270,000
Total liabilities	12,529,483	445,655	708,445	-	3,211,962	646,730	17,542,275	16,750,348
Fund Equity								
Reserved for encumbrances	147,784	20,000	54,000				221,784	59,370
Reserved for debt				\$ 529,910			529,910	29,227
Unreserved:								
Designated for subsequent year's expenditures	-			5,000			5,000	5,000
Undesignated (deficit) reported as major:	(1,057,785)	367,674	(127,756)				(817,867)	(2,961,255)
Undesignated (deficit) reported as nonmajor:								
Special revenue funds						96,790	96,790	79,310
Capital project funds					(1,372,673)	-	(1,372,673)	(332,915)
Total fund equity (deficit)	(910,001)	387,674	(73,756)	534,910	(1,372,673)	96,790	(1,337,056)	(3,121,263)
Total liabilities and fund equity	\$ 11,619,482	\$ 833,329	\$ 634,689	\$ 534,910	\$ 1,839,289	\$ 743,520	\$ 16,205,219	\$ 13,629,085

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,

	Major Funds				Non-major Funds		2008	2007
	General	Water	Sewer	Debt Service	Capital Project Funds	Special Revenue Funds	(Memo only) Total	(Memo only) Total
Revenue								
Real property taxes	\$ 5,727,882						\$ 5,727,882	\$ 4,820,419
Special assessment tax - real property	2,380						2,380	2,624
Real property tax items	224,299						224,299	189,837
Non-property tax items	4,461,486						4,461,486	4,237,991
Departmental income	1,227,058	\$ 3,505,783	\$ 2,266,470			\$ 169,572	7,168,883	6,408,779
Intergovernmental charges	166,924		172,522				339,446	326,563
Use of money and property	163,542			\$ 11,171	\$ 12,829	687	188,229	70,486
Licenses and permits	52,182						52,182	53,643
Fines and forfeitures	108,336						108,336	110,319
Sale of property & compensation for loss	8,962	23,873					32,835	37,257
Miscellaneous local sources	-				88,752	-	88,752	174,700
State aid	2,518,685		4,504		1,051,528	-	3,574,717	2,774,160
Federal aid	-				1,480,794	-	1,480,794	1,426,653
Total revenue	14,661,736	3,529,656	2,443,496	11,171	2,633,903	170,259	23,450,221	20,633,431
Expenditures								
General government support	2,129,946	66,094	60,000	12,713	378,999	-	2,647,752	2,172,969
Public safety	4,862,860				26,858	-	4,889,718	5,243,934
Health	84,904					-	84,904	83,647
Transportation	1,260,287				2,642,094	-	3,902,381	2,810,182
Economic development	15,000						15,000	15,000
Culture and recreation	857,037					-	857,037	981,267
Home and community services	103,745	1,592,750	1,526,282		303,698	134,104	3,660,579	3,410,422
Employee benefits	2,850,088	382,814	359,670				3,592,572	3,991,364
Debt service:								
Principal	23,050			1,084,000		-	1,107,050	865,434
Interest	216,146	-	90,321	583,879		-	890,346	647,005
Total expenditures	12,403,063	2,041,658	2,036,273	1,680,592	3,351,649	134,104	21,647,339	20,221,224
Excess (deficiency) of revenue over expenditures	2,258,673	1,487,998	407,223	(1,669,421)	(717,746)	36,155	1,802,882	412,207
Other financing sources (uses)								
Bad debt expense						(18,675)	(18,675)	(8,613)
BANS redeemed from appropriations	-	-	(100,000)		100,000	-	-	-
Proceeds from issuance of serial bonds net of bond issuance fees						-	-	1,268,000
Operating transfers in				1,680,592	67,500	-	1,748,092	1,483,111
Operating transfers out	(748,128)	(964,811)	(35,153)	-		-	(1,748,092)	(1,483,111)
Total other financing sources (uses)	(748,128)	(964,811)	(135,153)	1,680,592	167,500	(18,675)	(18,675)	1,259,387
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	1,510,545	523,187	272,070	11,171	(550,246)	17,480	1,784,207	1,671,594
Fund equity (deficit), beginning of year	(2,420,546)	(135,513)	(345,826)	34,227	(332,915)	79,310	(3,121,263)	(4,792,857)
Residual equity transfer	-	-	-	489,512	(489,512)	-	-	-
Fund equity (deficit), end of year	\$ (910,001)	\$ 387,674	\$ (73,756)	\$ 534,910	\$ (1,372,673)	\$ 96,790	\$ (1,337,056)	\$ (3,121,263)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Real property taxes	\$ 5,727,882	\$ 5,727,882	\$ 5,727,882	\$ -	\$ -
Special assessment tax - real property	6,750	6,750	2,380	-	(4,370)
Real property tax items	170,000	170,000	224,299	-	54,299
Non-property tax items	4,016,000	4,016,000	4,461,486	-	445,486
Departmental income	1,093,600	1,093,600	1,227,058	-	133,458
Intergovernmental charges	188,608	188,608	166,924	-	(21,684)
Use of money and property	61,000	61,000	163,542	-	102,542
Licenses and permits	48,750	48,750	52,182	-	3,432
Fines and forfeitures	100,000	100,000	108,336	-	8,336
Sales of property and compensation for loss	6,500	6,500	8,962	-	2,462
Miscellaneous local sources	750	750	-	-	(750)
State aid	2,514,993	2,514,993	2,518,685	-	3,692
Total revenue	13,934,833	13,934,833	14,661,736	-	726,903
Expenditures					
General government support	2,408,955	2,258,788	2,129,946	\$ 17,000	111,842
Public safety	5,011,139	5,105,057	4,862,860	96,648	145,549
Health	102,380	84,442	84,904	5,386	(5,848)
Transportation	1,224,984	1,283,758	1,260,287	22,250	1,221
Economic development	15,000	15,000	15,000	-	-
Culture and recreation	948,766	954,723	857,037	6,500	91,186
Home and community services	97,819	99,145	103,745	-	(4,600)
Employee benefits	3,269,975	3,269,975	2,850,088	-	419,887
Debt service:					
Principal	23,050	23,050	23,050	-	-
Interest	153,309	153,309	216,146	-	(62,837)
Total expenditures	13,255,377	13,247,247	12,403,063	147,784	696,400
Excess (deficiency) of revenue over expenditures	679,456	687,586	2,258,673	(147,784)	1,423,303
Other financing uses					
Operating transfers out	(679,456)	(746,956)	(748,128)	-	(1,172)
Total other financing uses	(679,456)	(746,956)	(748,128)	-	(1,172)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$ -	\$ (59,370)	\$ 1,510,545	\$ (147,784)	\$ 1,422,131

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	<u>(Water Fund and Sewer Fund Only)</u>				Variance
	Original	Amended	Actual	Encumbrances	Favorable (Unfavorable)
	Budget	Budget			
Revenue					
Departmental income	\$ 5,434,930	\$ 5,434,930	\$ 5,772,253		\$ 337,323
Intergovernmental charges	200,000	200,000	172,522		(27,478)
Sales of property and compensation for loss	25,000	25,000	23,873		(1,127)
State aid	5,000	5,000	4,504		(496)
Total revenue	5,664,930	5,664,930	5,973,152	-	308,222
Expenditures					
General government support	286,200	272,452	126,094		146,358
Home and community services	3,235,440	3,236,475	3,119,032	\$ 74,000	43,443
Employee benefits	778,272	778,272	742,484		35,788
Debt service - interest expense	-	-	90,321		(90,321)
Total expenditures	4,299,912	4,287,199	4,077,931	74,000	135,268
Excess (deficiency) of revenue over expenditures	1,365,018	1,377,731	1,895,221	(74,000)	443,490
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(100,000)		(100,000)
Operating transfers out	(1,192,520)	(1,205,233)	(999,964)		205,269
Total other financing sources (uses)	(1,192,520)	(1,205,233)	(1,099,964)	-	105,269
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 172,498	\$ 172,498	\$ 795,257	\$ (74,000)	\$ 548,759

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Use of money and property	\$ -	\$ 11,171	\$ -	\$ 11,171
Total revenue	-	11,171	-	11,171
Expenditures				
General government support	5,000	12,713		(7,713)
Debt service:				
Principal	1,084,000	1,084,000		-
Interest	597,655	583,879		13,776
Total expenditures	1,686,655	1,680,592	-	6,063
Excess (deficiency) of revenue over expenditures	(1,686,655)	(1,669,421)	-	17,234
Other financing sources (uses)				
Operating transfers out	-	-		-
Operating transfers in	1,681,655	1,680,592		(1,063)
Total other financing sources (uses)	1,681,655	1,680,592	-	(1,063)
Excess (deficiency) of revenue and other financing sources over expenditures	\$ (5,000)	\$ 11,171	\$ -	\$ 16,171

CITY OF OLEAN, NEW YORK
STATEMENTS OF FIDUCIARY NET ASSETS
AS OF MAY 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash on deposit		
Regular accounts	\$ 93,930	\$ 72,252
Restricted accounts	39,821	33,022
Due from governmental activities - general fund	<u>52,520</u>	<u>52,520</u>
Total assets	<u>\$ 186,271</u>	<u>\$ 157,794</u>
Due to governmental activities - general fund	\$ 13,273	\$ 8,273
Other liabilities	<u>172,998</u>	<u>149,521</u>
Total liabilities	<u>\$ 186,271</u>	<u>\$ 157,794</u>

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF MAY 31, 2008

Total fund balance - governmental funds \$ (1,337,056)

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	\$ 54,703,092	
Accumulated depreciation	(21,674,213)	
	<hr/>	33,028,879

Interest on long-term assets is not accrued in governmental funds, but rather is recognized as an expenditure when due. (169,000)

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	(67,757)	
NYS Environmental Facilities Corporation Bond	(6,515,000)	
Serial Bonds payable	(9,439,000)	
Environmental liability	(761,000)	
Retirement incentive	(799,813)	
Compensated absences	(515,769)	
	<hr/>	(18,098,339)

Total net assets - governmental liabilities \$ 13,424,484

	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	11,751,215			11,751,215
Receivables				
Refuse and garbage	794			794
Special assessment	11,256			11,256
Accounts receivable	1,591,949			1,591,949
Due from other funds	239,932		\$ (239,932)	-
Advances to other funds	641,496		(641,496)	-
State, Federal and other governments	1,353,797	\$ 98,142		1,451,939
Revolving loans receivable	454,973			454,973
First Time Homebuyers loans receivable	149,716			149,716
Rehabilitation loans receivable	8,743			8,743
Capital Assets, net		33,028,879		33,028,879
Total assets	\$ 16,205,219	\$ 33,127,021	\$ (881,428)	\$ 48,450,812
Liabilities				
Accounts payable	\$ 1,029,932			\$ 1,029,932
Accrued liabilities	780,523	\$ 169,000	\$ (225,000)	724,523
Due to other funds	279,179		(239,932)	39,247
Advances from other funds	641,496		(641,496)	-
Due to other governments	-	165,899		165,899
Due to employee retirement system	174,167			174,167
Other liabilities	29,542			29,542
Deferred revenue	4,637,436			4,637,436
Revenue anticipation notes payable	3,500,000			3,500,000
Bond anticipation notes payable	6,470,000			6,470,000
NYS EFC note		6,515,000		6,515,000
Serial bonds payable		9,439,000		9,439,000
Environmental liability		761,000	225,000	986,000
Retirement incentive		799,813		799,813
Compensated absences		515,769		515,769
Total liabilities	17,542,275	18,365,481	(881,428)	35,026,328
Fund equity (deficit)/net assets	(1,337,056)	14,761,540	-	13,424,484
Total liabilities and fund equity/net assets	\$ 16,205,219	\$ 33,127,021	\$ (881,428)	\$ 48,450,812

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 \$ 1,784,207

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	\$ 2,942,134	
Depreciation expense	<u>(1,361,027)</u>	1,581,107

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. (257,000)

Repayment of bond principal is an expenditure in the government funds,
but the repayment reduces long-term liabilities in the statement of
net assets. 1,093,450

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. 12,400

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. (191,481)

Change in net assets of governmental activities \$ 4,022,683

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Total
Revenues					
Real property taxes	\$ 5,727,882				\$ 5,727,882
Special assessment tax - real property	2,380				2,380
Real property tax items	224,299				224,299
Non-property tax items	4,461,486				4,461,486
Departmental income	7,168,883			\$ (7,168,883)	-
Intergovernmental charges	339,446		\$ (13,600)	(325,846)	-
Use of money and property	188,229			(3,118)	185,111
Licenses and permits	52,182			(52,182)	-
Fines and forfeitures	108,336			(108,336)	-
Sales of property and compensation for loss	32,835			(32,835)	-
Miscellaneous local sources	88,752			(88,752)	-
State aid	3,574,717			(1,233,645)	2,341,072
Federal aid	1,480,794			(1,480,794)	-
Total revenues	23,450,221	-	(13,600)	(10,494,391)	12,942,230
Expenditures/Expenses					
General government support	2,647,752	\$ (97,099)		(535,768)	2,014,885
Public safety	4,889,718	440,578		(259,366)	5,070,930
Health	84,904	7,690		(664,556)	(571,962)
Transportation	3,902,381	(1,966,749)		(2,517,277)	(581,645)
Economic development	15,000	1,359		(8,081)	8,278
Culture and recreation	857,037	61,625		(256,662)	662,000
Home and community services	3,660,579	(28,511)	(257,000)	(5,013,102)	(1,638,034)
Employee benefits	3,592,572		191,481	(1,087,554)	2,696,499
Debt service:					
Principal	1,107,050		(1,107,050)	-	-
Interest	890,346		(12,400)	(133,350)	744,596
Total expenditures/expenses	21,647,339	(1,581,107)	(1,184,969)	(10,475,716)	8,405,547
Excess (deficiency) of revenue over expenditures	1,802,882	1,581,107	1,171,369	(18,675)	4,536,683
Other sources and uses					
Bad debt expense	(18,675)			18,675	-
Proceeds from issuance of serial bonds net of bond issuance fees	-		-	-	-
Operating transfers in	1,748,092			(1,748,092)	-
Operating transfers out	(1,748,092)			1,748,092	-
Total other sources (uses)	(18,675)	-	-	18,675	-
Net change for the year	\$ 1,784,207	\$ 1,581,107	\$ 1,171,369	-	\$ 4,536,683

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

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 2008-09 fiscal year.

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.

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:

	<u>June 1, 2007 Fund Equity</u>	<u>Revenues and Other Sources</u>	<u>Expenditures and Other Uses</u>	<u>May 31, 2008 Fund Equity</u>
Total for funds included in Budget Comparison	\$ (481,339)	\$ 5,973,152	\$ 5,177,895	\$ 313,918
Funds not included in budget comparison:				
Revolving Loan Fund	21,109	111,624	111,678	21,055
First Time Homebuyers Fund	39,394	42,436	26,351	55,479
Housing Rehabilitation Fund	18,807	16,199	14,750	20,256
Total Special Revenue Funds	<u>\$ (402,029)</u>	<u>\$ 6,143,411</u>	<u>\$ 5,330,674</u>	<u>\$ 410,708</u>

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 2007-2008 was \$4,009,000 as compared to \$3,784,000 for the prior fiscal year, an increase of \$225,000. The City's General Fund Balance Sheet, as of May 31, 2008, reflects a receivable balance from Federal and State governments of \$695,154, of which, \$557,675 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 required to account for infrastructure capital assets. 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)

I. Capital Assets (continued)

Because a full independent appraisal of the City's fixed assets has not been performed in approximately nine years and does not include the cost basis of all infrastructure of the City, the reasonableness of this estimate cannot be determined and is not in accordance with generally accepted accounting principles as prescribed in the United States of America.

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, 2008 amounting to \$515,769 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. While the City does not have a specific policy with regards to custodial credit risk, New York State statutes govern the City's investment policies. At May 31, 2008, the City's bank deposits were fully collateralized.

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, 2008 per the bank were approximately \$11,773,000. These deposits are categorized as follows:

Category 1	Category 2	Category 3	Carrying Value
\$ 200,000	\$ 11,573,000	\$ -	\$11,773,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

2. Capital Assets

Governmental activities:	Beginning Balance 5/31/07	Additions / Transfers	Ending Balance 5/31/08
Capital assets that are not depreciated:			
Land	\$ 553,070		\$ 553,070
Construction in progress	5,609,282	\$ (3,498,120)	2,111,162
Capital assets that are depreciated:			
Buildings and improvements	38,061,689	6,370,246	44,431,935
Furniture and equipment	2,799,584	70,008	2,869,592
Vehicles	4,737,333	--	4,737,333
Total historical cost	51,760,958	\$ 2,942,134	54,703,092
Less: Accumulated depreciation:	20,313,186	\$ 1,361,027	21,674,213
Total net book value	\$ 31,447,772		\$ 33,028,879
Depreciation expense:			
General governmental support		\$ 239,817	
Public safety		442,881	
Health		7,690	
Transportation		258,410	
Economic development		1,359	
Culture and recreation		77,625	
Home and community services		333,245	
		\$ 1,361,027	

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2008

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(continued)

A. Assets (continued)

3. Receivables

Receivables at May 31, 2008 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	\$ 137,479
General Fund	Due from Federal & State - NYS sales tax	557,675
General Fund	Other receivables	226,408
Special Revenue:		
Water Fund	Accounts receivable - water rents and meter	787,557
Sewer Fund	Accounts receivable - sewer rents	590,034
Community Development:		
Revolving Loan	Loan receivable	454,971
1 st Time Home	Loan receivable	149,716
Housing Rehab	Loan receivable	8,743
Capital Projects	Due from Federal & State - various projects	658,643
		<u>\$3,571,226</u>

B. Liabilities

1. Deferred Revenue

Deferred revenue at May 31, 2008 was as follows:

	General Fund	Special Revenue Fund
Real property taxes	\$ 3,882,837	
Payment in-lieu of taxes	129,915	
Special assessment taxes	11,255	
Revolving loans		\$ 613,429
	<u>\$ 4,024,007</u>	<u>\$ 613,429</u>

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(continued)

B. Liabilities (continued)

1. Deferred Revenues (continued)

Deferred real property taxes reflect collections during May 2008 for real property taxes levied on May 1 for the 2008-2009 fiscal year. Deferred special assessment taxes consist of levies on property owners to be collected after May 31, 2008. 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,	2008	\$ 322,212	\$ 566,660
	2007	514,789	645,009
	2006	536,186	614,542

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 16, 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 16, 2007 with a maturity date of August 14, 2008 and were issued without the option of prepayment. The bonds carry an interest rate of 4.00%.

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.

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, 2008 are as follows:

Description	Amount	Interest Rate	Budget Appropriation May 31, 2009
Sanitary Sewer System	\$ 1,320,000	4.00%	\$ 50,000
Sewer Improvements	490,000	4.00%	30,000
Odor Control WTP	360,000	4.00%	20,000
Deficit Financing – General Fund	3,410,000	3.74%	142,021
Deficit Financing – Water Fund	260,000	3.74%	5,041
Deficit Financing – Sewer Fund	630,000	3.74%	12,855
Totals	\$ 6,470,000		\$ 259,917

b. 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 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 4.00% and matures on August 14, 2008.

The City revenue anticipation note outstanding as of May 31, 2008 is as follows:

Description	Amount	Interest Rate	Budget Appropriation May 31, 2009
RAN	\$ 3,500,000	4.00%	\$ 139,223

c. Short-Term Debt Interest

Interest expense related to the bond anticipation notes amounted to \$304,683 during the fiscal year ended May 31, 2008 of which \$214,362 and \$90,321 was incurred in the general and sewer funds, respectively.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

3. Long-Term Debt

a. Debt Limit

At May 31, 2008 the total outstanding indebtedness of the City aggregated \$25,924,000 (including bond anticipation notes and revenue anticipation notes). Of this amount, \$6,748,000 is subject to the constitutional debt limit and represented approximately 22.13% 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, 2008 was \$165,899. 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 \$98,142, 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, 2008:

	<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding May 31, 2008</u>
General Fund					
Various Purpose	10/97	\$ 2,888,000	4.50%	10/11	\$ 538,000
Various Purpose	08/04	938,383	Various	08/14	419,250
Taxable Pension Bond	12/04	447,908	Various	12/09	180,000
Public Improvement Bond	08/06	1,160,000	Various	08/14	970,000
Special Revenue Funds					
Water Filtration Plant	03/03	2,790,591	Various	10/32	2,435,000
Water Fund-Variou s	10/97	227,000	4.50%	10/08	17,000
Water Filtration Plant	07/03	1,809,453	Various	07/23	1,510,000
Water Reservoir	07/03	4,665,163	Various	07/24	4,080,000
Water Filtration Plant	02/04	5,868,000	4.50%	02/39	5,564,000
Water Fund – Various	08/04	207,262	Various	08/14	86,250
Sewer Fund – Various	08/04	82,905	Various	08/14	34,500
Water Fund – Pension	12/04	73,816	Various	12/09	30,000
Sewer Fund – Pension	12/04	49,358	Various	12/09	20,000
Sewer Fund – Public Imp.	08/06	80,000	Various	08/14	70,000
Total					<u>\$ 15,954,000</u>

e. Changes

The following is a summary of changes in long-term liabilities for the period ended May 31, 2008:

	<u>Payable at June 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at May 31, 2008</u>
Bonds	\$ 4,613,000		\$ 738,000	\$ 3,875,000
EFC Grid Note/Bond	2,505,000		70,000	2,435,000
EFC Grid Bond	4,275,000		195,000	4,080,000
RD Bond	5,645,000		81,000	5,564,000
Subtotal	<u>17,038,000</u>		<u>1,084,000</u>	<u>15,954,000</u>
Due to Other				
Governments	188,949		23,050	165,899
Environmental Liability	1,243,000		257,000	986,000
Retirement Incentive	542,305	\$ 257,508		799,813
Compensated Absences	581,796		66,027	515,769
	<u>2,556,050</u>	<u>257,508</u>	<u>346,077</u>	<u>2,467,481</u>
	<u>\$ 19,594,050</u>	<u>\$ 257,508</u>	<u>\$ 1,430,077</u>	<u>\$ 18,421,481</u>

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 \$585,663 for the year ended May 31, 2008, of which \$1,784 was recorded in the general fund, while \$583,879 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, 2008:

Year Ending May 31	Total	Principal	Interest
2009	1,630,159	1,103,281	526,878
2010	1,522,076	1,027,518	494,558
2011	1,373,237	911,750	461,487
2012	1,225,485	785,990	439,495
2013	1,056,958	641,232	415,726
2014-2018	4,759,820	2,943,128	1,816,692
2019-2023	4,407,471	3,029,000	1,378,471
2024-2028	3,053,125	2,153,000	900,125
2029-2033	2,346,695	1,776,000	570,695
2034-2038	1,663,303	1,424,000	239,303
2039	332,375	325,000	7,375
Total	\$23,370,704	\$ 16,119,899	\$ 7,250,805

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 \$51,000 for the fiscal year ended May 31, 2008.

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, 2008
General Fund	Reserve for encumbrances	\$ 147,784
Water Fund	Reserve for encumbrances	20,000
Sewer Fund	Reserve for encumbrances	54,000
Debt Service	Reserve for debt	529,910
		\$ 751,694

2. Unreserved

a. General Fund

There are no amounts designated to reduce the taxes for the year ending May 31, 2009.

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 2008-09 fiscal year.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

E. Interfund Receivables, Payables and Transactions

Interfund receivables and payables at May 31, 2008 and interfund transactions during the fiscal year ended May 31, 2008 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	\$ 2,716	\$ 83,858	\$ 641,496			\$ 748,128
Capital Projects Fund	237,216				\$ 67,500	
Agency Fund	52,520	13,273				
Debt Service Fund					1,680,592	
Sewer Fund		190,321		\$ 358,075		35,153
Water Fund				283,421		964,811
Other Special Revenue Funds		5,000				
Totals	<u>\$ 292,452</u>	<u>\$ 292,452</u>	<u>\$ 641,496</u>	<u>\$ 641,496</u>	<u>\$ 1,748,092</u>	<u>\$ 1,748,092</u>

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.

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.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (continued)

D. Litigation (continued)

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

E. Employee Contracts

The City of Olean has four collective bargaining units. The contracts for the Police Patrol Unit and the Police Command Unit expire on May 31, 2010. The contract for the Civil Service Employees Association Unit will expire on May 31, 2011. The contract for the Olean Professional Fire Fighters Association expired on May 31, 2007. An agreement has not been reached. The City filed impasse in December 2007. A mediator was assigned, however this individual subsequently passed away. The City is now awaiting the assignment of an arbitrator to move forward with binding arbitration. The City may be ordered to disburse retroactive pay or provide other monetary settlements, however, at this time estimates of such payments are not available.

F. 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, 2008, 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)

F. 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 2006 the City completed a new master plan for the waste water system and submitted the plan to the DEC for their review. The plan has not been approved by the DEC as of the financial statement date.

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, 2008, the estimated liability stands at \$861,000.

G. Retirement Incentives

In a December 2006, 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 \$927,000, of which \$391,000 was paid during prior fiscal years. The remaining \$536,000 was recognized as a liability in the Statement of Net Assets. Future payments related to the incentive are as follows:

NOTE 4 – COMMITMENTS AND CONTINGENCIES
(continued)

G. Retirement Incentives (continued)

Year Ending May 31	Incentive
2009	\$ 139,000
2008	143,000
2010	157,000
2011	82,000
2012	15,000
Total	<u>\$ 536,000</u>

In 2007-08, the *City of Olean, New York* offered a second retirement incentive to all eligible employees. Employees whom participated in the incentive were eligible to receive a lump sum payment on the date of retirement for the employees' earned unused vacation time and a cash incentive to be paid in equal installments over the next 3 years. Total accumulated costs associated with the incentive approximated \$300,000, of which \$37,000 was included in accrued liabilities in the General Fund Balance Sheet at May 31, 2008. The remaining \$263,000 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
2009	\$ 137,000
2010	73,000
2011	53,000
Total	<u>\$ 263,000</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 had 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.

During the fiscal year ended May 31, 2008, the City issued deficit financing bond anticipation notes in the amount of \$4,300,000. A portion of these proceeds were utilized to repay the balances borrowed from the capital project funds in prior years.

NOTE 6 – FUND BALANCE

Accumulated Deficits

As of May 31, 2008, the *City of Olean, New York* had accumulated deficits in the general fund and sewer fund in the amounts of approximately \$910,000, and \$74,000, respectively. These deficits have accumulated as a result of prior years' operating deficits. As mentioned elsewhere in the notes to the financial statements, 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, 2008 which totaled approximately \$1,373,000. 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). As of May 31, 2008, the *City of Olean, New York* had certain projects (airport building renovations and aircraft parking apron) 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.

Residual Equity Transfers

During the year ended May 31, 2008, the *City of Olean, New York* transferred remaining fund balance in amount of \$489,512 related to the reservoir replacement project was transferred to the debt service fund. Amounts transferred will be utilized in future years to pay down debt associated with the reservoir replacement project.

NOTE 7 – SUBSEQUENT EVENTS

Bond Anticipation Notes – Capital Projects

On August 14, 2008, the *City of Olean, New York* issued bond anticipation notes, 2008 (various purposes) in the amount of \$2,370,000. The bonds are dated August 14, 2008 with a maturity date of August 13, 2009 and were issued without the option of prepayment. The bonds carry an interest rate of 3.23% and were issued to finance the following projects:

NOTE 7 – SUBSEQUENT EVENTS (continued)

Bond Anticipation Notes – Capital Projects (continued)

Sanitary sewer system improvements (odor control)	\$ 460,000
Sewer system (catch basin) improvements	1,270,000
Phase II modifications of wastewater Treatment plant (odor control)	340,000
Improvements to various City buildings (roof reconstruction)	<u>300,000</u>
	<u>\$ 2,370,000</u>

On September 25, 2008, the *City of Olean, New York* issued bond anticipation notes in the amount of \$4,330,937. The notes in the amount of \$1,000,000, \$2,000,000 and \$1,330,937 carry interest of 3.12%, 3.83% and 4.03%, respectively, and have maturity dates of September 24, 2009. Proceeds from the notes in the amount of \$1,300,000 will be utilized to fund the East State Sewer Project, with the remaining \$3,030,937 used to pay down a portion of the deficit financing bond anticipation notes that matured on September 25, 2008. The City paid the balance (\$1,269,063) of the \$4,300,000 deficit financing bond anticipation notes that matured on September 25, 2008 from funds on hand.

Revenue Anticipation Notes

On August 14, 2008, the *City of Olean, New York* issued a revenue anticipation note in the amount of \$2,800,000 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, 2008 and ending May 31, 2009. This note carries an interest rate of 3.56% and matures on August 13, 2009. The revenue anticipation note is noncallable.

NOTE 8 – 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". This Statement requires the City to report 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, over time, a liability in the amount of its unfunded post-employment benefits. The effective implementation date for this Statement is the fiscal year ending May 31, 2009.

SUPPLEMENTARY INFORMATION

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
GENERAL FUND
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
<u>Assets</u>		
Cash on hand	\$ 1,308	\$ 1,308
Cash on deposit		
Regular accounts	10,052,400	5,153,081
Receivables		
Refuse and garbage	794	1,383
Special assessment	11,256	15,542
Accounts receivable	214,358	243,306
Due from other funds	2,716	13,273
Advances to other funds	641,496	1,843,884
State and federal	695,154	648,951
Total assets	\$ 11,619,482	\$ 7,920,728
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts payable	\$ 180,149	\$ 136,621
Accrued liabilities	555,812	818,032
Due to other funds	83,858	1,620,331
Due to employee retirement system	148,333	156,266
Other liabilities	1,241	9,274
Deferred revenues	4,024,007	3,800,750
Revenue anticipation notes payable	3,500,000	3,800,000
Bond anticipation notes payable	4,036,083	-
Total liabilities	12,529,483	10,341,274
Fund Equity		
Reserved for encumbrances	147,784	59,370
Unreserved:		
Undesignated (deficit)	(1,057,785)	(2,479,916)
Total fund equity (deficit)	(910,001)	(2,420,546)
	\$ 11,619,482	\$ 7,920,728

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY
GENERAL FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2008 AND 2007

Page 36

	May 31 2008	May 31 2007
Revenue		
Real property taxes	\$ 5,727,882	\$ 4,820,419
Special assessment tax - real property	2,380	2,624
Real property tax items	224,299	189,837
Non-property tax items	4,461,486	4,237,991
Departmental income	1,227,058	1,086,278
Intergovernmental charges	166,924	137,626
Use of money and property	163,542	67,412
Licenses and permits	52,182	53,643
Fines and forfeitures	108,336	110,319
Sales of property and compensation for loss	8,962	10,375
State aid	2,518,685	2,382,014
Federal aid	-	120,000
Total revenue	14,661,736	13,218,538
Expenditures		
General government support	2,129,946	2,009,270
Public safety	4,862,860	5,227,334
Health	84,904	83,647
Transportation	1,260,287	1,150,312
Economic development	15,000	15,000
Culture and recreation	857,037	981,267
Home and community services	103,745	102,420
Employee benefits	2,850,088	3,121,206
Debt service:		
Principal	23,050	22,818
Interest	216,146	40,148
Total expenditures	12,403,063	12,753,422
Excess of revenue over expenditures	2,258,673	465,116
Other financing uses		
BANS redeemed from appropriations	-	(85,000)
Operating transfers out	(748,128)	(520,649)
Total other financing uses	(748,128)	(605,649)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	1,510,545	(140,533)
Fund equity (deficit), beginning of year	(2,420,546)	(2,280,013)
Fund equity (deficit), end of year	\$ (910,001)	\$ (2,420,546)

**CITY OF OLEAN, NEW YORK
COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS
AS OF MAY 31, 2008**

	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	45,732	\$ 44,655	\$ 49,356	\$ 20,256	\$ 60,476	220,475
Receivables						
Accounts receivable	787,557	590,034				1,377,591
Revolving loans receivable			454,973			454,973
First Time Homebuyers loans receivable					149,716	149,716
Rehabilitation loans receivable				8,743		8,743
Total assets	\$ 833,329	\$ 634,689	\$ 504,329	\$ 28,999	\$ 210,192	\$ 2,211,538
Liabilities						
Accounts payable	\$ 77,863	\$ 93,875				\$ 171,738
Accrued liabilities	70,204	54,507				124,711
Due to other funds	-	190,321			\$ 5,000	195,321
Advances from other funds	283,421	358,075				641,496
Other liabilities/due to retirement systems	14,167	11,667	\$ 28,301			54,135
Deferred revenues			454,973	\$ 8,743	149,713	613,429
Total liabilities	445,655	708,445	483,274	8,743	154,713	1,800,830
Fund Equity						
Reserve for encumbrances	20,000	54,000	-	-	-	74,000
Unreserved:						
Undesignated (deficit)	367,674	(127,756)	21,055	20,256	55,479	336,708
Total fund equity (deficit)	387,674	(73,756)	21,055	20,256	55,479	410,708
Total liabilities and fund equity	\$ 833,329	\$ 634,689	\$ 504,329	\$ 28,999	\$ 210,192	\$ 2,211,538

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, 2008

	Water	Sewer	Community Development			(Memo only) Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Revenue						
Departmental income	\$ 3,505,783	\$ 2,266,470	\$ 111,447	\$ 15,857	\$ 42,268	\$ 5,941,825
Intergovernmental charges		172,522				172,522
Use of money and property			177	342	168	687
Sales of property & compensation for loss	23,873					23,873
State aid		4,504				4,504
Total revenue	3,529,656	2,443,496	111,624	16,199	42,436	6,143,411
Expenditures						
General government support	66,094	60,000				126,094
Home and community services	1,592,750	1,526,282	111,678	-	22,426	3,253,136
Employee benefits	382,814	359,670				742,484
Debt service - interest expense	-	90,321				90,321
Total expenditures	2,041,658	2,036,273	111,678	-	22,426	4,212,035
Excess (deficiency) of revenue over expenditures	1,487,998	407,223	(54)	16,199	20,010	1,931,376
Other financing sources (uses)						
Uncollectable loan writeoffs			-	(14,750)	(3,925)	(18,675)
BANs redeemed from appropriations	-	(100,000)				(100,000)
Operating transfers out	(964,811)	(35,153)				(999,964)
Total financing sources (uses)	(964,811)	(135,153)	-	(14,750)	(3,925)	(1,118,639)
Excess (deficiency) of revenue over expenditures and other financing uses	523,187	272,070	(54)	1,449	16,085	812,737
Fund equity (deficit), beginning of year	(135,513)	(345,826)	21,109	18,807	39,394	(402,029)
Fund equity (deficit), end of year	\$ 387,674	\$ (73,756)	\$ 21,055	\$ 20,256	\$ 55,479	\$ 410,708

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SPECIAL REVENUE FUNDS
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	220,475	298,494
Receivables		
Accounts receivable	1,377,591	1,449,811
Revolving loans receivable	454,973	411,933
First time homebuyers loans receivable	149,716	167,824
Rehabilitation loans receivable	8,743	24,601
Total assets	\$ 2,211,538	\$ 2,352,703
Liabilities		
Accounts payable	\$ 171,738	\$ 107,945
Accrued liabilities	124,711	124,497
Due to other funds	195,321	26,653
Advances from other funds	641,496	1,843,884
Other liabilities/due to retirement systems	54,135	47,398
Deferred revenues	613,429	604,355
Total liabilities	1,800,830	2,754,732
Fund Equity (deficit)		
Reserve for encumbrances	74,000	-
Unreserved:		
Undesignated (deficit)	336,708	(402,029)
Total fund equity (deficit)	410,708	(402,029)
Total liabilities and fund equity	\$ 2,211,538	\$ 2,352,703

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, 2008 AND 2007

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	May 31 2008	May 31 2007
Revenue		
Departmental income	\$ 5,941,825	\$ 5,322,501
Intergovernmental charges	172,522	188,937
Use of money and property	687	691
Sales of property and compensation for loss	23,873	26,882
State aid	4,504	5,509
Federal aid	-	220,664
Total revenue	6,143,411	5,765,184
Expenditures		
General government support	126,094	140,069
Home and community services	3,253,136	3,255,088
Employee benefits	742,484	870,158
Debt service - interest expense	90,321	76,451
Total expenditures	4,212,035	4,341,766
Excess of revenue over expenditures	1,931,376	1,423,418
Other financing sources (uses)		
Uncollectable loan writeoffs	(18,675)	(8,613)
BANs redeemed from appropriations	(100,000)	(118,000)
Operating transfers out	(999,964)	(955,008)
Total other financing sources (uses)	(1,118,639)	(1,081,621)
Excess of revenue and other financing sources over expenditures and other financing uses	812,737	341,797
Fund equity (deficit), beginning of year	(402,029)	(743,826)
Fund equity (deficit), end of year	\$ 410,708	\$ (402,029)

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
WATER FUND
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	45,732	120,060
Accounts receivable	787,557	853,268
Total assets	\$ 833,329	\$ 973,368
Liabilities		
Accounts payable	\$ 77,863	\$ 51,301
Accrued liabilities	70,204	66,197
Due to other funds	-	21,653
Advances from other funds	283,421	953,063
Other liabilities/due to retirement systems	14,167	16,667
Total liabilities	445,655	1,108,881
Fund Equity (deficit)		
Reserve for encumbrances	20,000	-
Unreserved:		
Undesignated (deficit)	367,674	(135,513)
Total fund equity (deficit)	387,674	(135,513)
Total liabilities and fund equity	\$ 833,329	\$ 973,368

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - WATER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2008 AND 2007

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	May 31 2008	May 31 2007
Revenue		
Departmental income	\$ 3,505,783	\$ 3,025,551
Sales of property and compensation for loss	23,873	26,882
Total revenue	3,529,656	3,052,433
Expenditures		
General government support	66,094	73,069
Home and community services	1,592,750	1,427,043
Employee benefits	382,814	465,164
Debt service - interest expense	-	1,715
Total expenditures	2,041,658	1,966,991
Excess of revenue over expenditures	1,487,998	1,085,442
Other financing sources (uses)		
BANS redeemed from appropriations		(28,000)
Operating transfers out	(964,811)	(934,640)
Total other financing uses	(964,811)	(962,640)
Excess of revenue and other financing sources over expenditures and other financing uses	523,187	122,802
Fund equity (deficit), beginning of year	(135,513)	(258,315)
Fund equity (deficit), end of year	\$ 387,674	\$ (135,513)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - WATER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,236,430	\$ 3,236,430	\$ 3,505,783		\$ 269,353
Sales of property and compensation for loss	25,000	25,000	23,873		(1,127)
Total revenue	3,261,430	3,261,430	3,529,656		268,226
Expenditures					
General government support	114,200	100,452	66,094		34,358
Home and community services	1,701,629	1,702,664	1,592,750	\$ 20,000	89,914
Employee benefits	411,389	411,389	382,814		28,575
Total expenditures	2,227,218	2,214,505	2,041,658	20,000	152,847
Excess (deficiency) of revenue over expenditures	1,034,212	1,046,925	1,487,998	(20,000)	421,073
Other financing uses					
Operating transfers out	(967,046)	(979,759)	(964,811)		14,948
Total other financing uses	(967,046)	(979,759)	(964,811)	-	14,948
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 67,166	\$ 67,166	\$ 523,187	\$ (20,000)	\$ 436,021

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SEWER FUND
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
Assets		
Cash	\$ 44,655	\$ 77,063
Accounts receivable	590,034	596,543
Total assets	\$ 634,689	\$ 673,606
Liabilities		
Accounts payable	\$ 93,875	\$ 56,644
Accrued liabilities	54,507	58,300
Advances from other funds	358,075	890,821
Due to other funds	190,321	-
Other liabilities/due to other governments	11,667	13,667
Total liabilities	708,445	1,019,432
Fund Equity (deficit)		
Reserve for encumbrances	54,000	-
Unreserved:		
Undesignated (deficit)	(127,756)	(345,826)
Total fund equity (deficit)	(73,756)	(345,826)
Total liabilities and fund equity	\$ 634,689	\$ 673,606

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SEWER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2008 AND 2007

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	May 31 2008	May 31 2007
Revenue		
Departmental income	\$ 2,266,470	\$ 2,162,567
Intergovernmental charges	172,522	188,937
State aid	4,504	5,509
Total revenue	2,443,496	2,357,013
Expenditures		
General government support	60,000	67,000
Home and community services	1,526,282	1,415,657
Employee benefits	359,670	404,994
Debt service - interest expense	90,321	74,736
Total expenditures	2,036,273	1,962,387
Excess of revenue over expenditures	407,223	394,626
Other financing sources (uses)		
BANs redeemed from appropriations	(100,000)	(90,000)
Operating transfers out	(35,153)	(20,368)
Total other financing sources	(135,153)	(110,368)
Excess of revenue and other financing sources over expenditures and other financing uses	272,070	284,258
Fund equity (deficit), beginning of year	(345,826)	(630,084)
Fund equity (deficit), end of year	\$ (73,756)	\$ (345,826)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - SEWER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 2,198,500	\$ 2,198,500	\$ 2,266,470		\$ 67,970
Intergovernmental charges	200,000	200,000	172,522		(27,478)
State aid	5,000	5,000	4,504		(496)
Total revenue	2,403,500	2,403,500	2,443,496	-	39,996
Expenditures					
General government support	172,000	172,000	60,000		112,000
Home and community services	1,533,811	1,533,811	1,526,282	\$ 54,000	(46,471)
Employee benefits	366,883	366,883	359,670		7,213
Debt service - interest expense	-	-	90,321		(90,321)
Total expenditures	2,072,694	2,072,694	2,036,273	54,000	(17,579)
Excess (deficiency) of revenue over expenditures	330,806	330,806	407,223	(54,000)	22,417
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(100,000)		(100,000)
Operating transfers out	(225,474)	(225,474)	(35,153)		190,321
Total other financing sources (uses)	(225,474)	(225,474)	(135,153)	-	90,321
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 105,332	\$ 105,332	\$ 272,070	\$ (54,000)	\$ 112,738

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
REVOLVING LOAN FUND
AS OF MAY 31, 2008 AND 2007

	<u>May 31</u> <u>2008</u>	<u>May 31</u> <u>2007</u>
Assets		
Cash on deposit		
Regular accounts	\$ 49,356	\$ 38,173
Rehabilitation loans receivable	454,973	411,933
Total assets	<u>\$ 504,329</u>	<u>\$ 450,106</u>
Liabilities		
Deferred revenues	\$ 454,973	\$ 411,933
Due to other agency	28,301	17,064
Total liabilities	<u>483,274</u>	<u>428,997</u>
Fund Equity		
Unreserved:		
Undesignated	21,055	21,109
Total fund equity	<u>21,055</u>	<u>21,109</u>
Total liabilities and fund equity	<u>\$ 504,329</u>	<u>\$ 450,106</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, 2008 AND 2007

	<u>May 31</u> <u>2008</u>	<u>May 31</u> <u>2007</u>
Revenue		
Departmental income	\$ 111,447	\$ 85,190
Use of money and property	177	210
Total revenue	<u>111,624</u>	<u>85,400</u>
Expenditures		
Home and community services	<u>111,678</u>	<u>161,626</u>
Total expenditures	<u>111,678</u>	<u>161,626</u>
Excess (deficiency) of revenue over expenditures and other uses	(54)	(76,226)
Fund equity, beginning of year	<u>21,109</u>	<u>97,335</u>
Fund equity, end of year	<u>\$ 21,055</u>	<u>\$ 21,109</u>

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
HOUSING REHABILITATION FUND
AS OF MAY 31, 2008 AND 2007

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	May 31 2008	May 31 2007
Assets		
Cash on deposit		
Regular accounts	\$ 20,256	\$ 18,807
Rehabilitation loans receivable	8,743	24,601
Total assets	\$ 28,999	\$ 43,408
Liabilities		
Deferred revenues	\$ 8,743	\$ 24,601
Total liabilities	8,743	24,601
Fund Equity		
Unreserved:		
Undesignated	20,256	18,807
Total fund equity	20,256	18,807
Total liabilities and fund equity	\$ 28,999	\$ 43,408

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, 2008 AND 2007

	May 31 2008	May 31 2007
Revenue		
Departmental income	\$ 15,857	\$ 20,783
Use of money and property	342	375
Total revenue	16,199	21,158
Expenditures		
Home and community services	-	3,780
Total expenditures	-	3,780
Excess of revenue over expenditures	16,199	17,378
Other financing uses		
Bad debt expense	(14,750)	(8,613)
Total other financing uses	(14,750)	(8,613)
Excess of revenue over expenditures and other uses	1,449	8,765
Fund equity, beginning of year	18,807	10,042
Fund equity, end of year	\$ 20,256	\$ 18,807

**CITY OF OLEAN, NEW YORK
 COMPARATIVE BALANCE SHEETS
 FIRST TIME HOMEBUYERS PROGRAM
 AS OF MAY 31, 2008 AND 2007**

	May 31 2008	May 31 2007
Assets		
Cash on deposit		
Regular accounts	\$ 60,476	\$ 44,391
First time homebuyers loans receivable	149,716	167,824
Total assets	\$ 210,192	\$ 212,215
Liabilities		
Deferred revenue	\$ 149,713	\$ 167,821
Due to other funds	5,000	5,000
Total liabilities	154,713	172,821
Fund Equity		
Unreserved:		
Undesignated	55,479	39,394
Total fund equity	55,479	39,394
Total liabilities and fund equity	\$ 210,192	\$ 212,215

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, 2008 AND 2007****Page 52**

	May 31 2008	May 31 2007
Revenue		
Departmental income	\$ 42,268	\$ 28,410
Use of money and property	168	106
Federal aid	-	220,664
Total revenue	42,436	249,180
Expenditures		
Home and community services	22,426	246,982
Total expenditures	22,426	246,982
Excess of revenue over expenditures	20,010	2,198
Other financing uses		
Bad debt expense	(3,925)	-
Total other financing uses	(3,925)	-
Excess of revenue over expenditures and other uses	16,085	2,198
Fund equity, beginning of year	39,394	37,196
Fund equity, end of year	\$ 55,479	\$ 39,394

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
Assets		
Cash on deposit		
Regular accounts	\$ 943,430	\$ 470,597
Due from Federal and State	658,643	173,288
Due from other funds	237,216	2,677,542
Total assets	\$ 1,839,289	\$ 3,321,427
Liabilities		
Accounts payable	\$ 678,045	\$ 174,611
Accrued liabilities/due to other governments	100,000	100,000
Due to other funds	-	1,109,731
Bond anticipation notes payable	2,433,917	2,270,000
Total liabilities	3,211,962	3,654,342
Fund Equity		
Unreserved:		
Undesignated (deficit)	(1,372,673)	(332,915)
Total fund equity (deficit)	(1,372,673)	(332,915)
Total liabilities and fund equity	\$ 1,839,289	\$ 3,321,427

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, 2008 AND 2007

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	May 31 2008	May 31 2007
Revenue		
Use of money and property	\$ 12,829	\$ 2,323
Miscellaneous local sources	88,752	174,700
Federal aid	1,480,794	1,085,989
State aid	1,051,528	386,637
Total revenue	2,633,903	1,649,649
Expenditures		
General government support	378,999	4,331
Public safety	26,858	16,600
Transportation	2,642,094	1,659,870
Home and community services	303,698	52,914
Total expenditures	3,351,649	1,733,715
Excess (deficiency) of revenue over expenditures	(717,746)	(84,066)
Other financing sources (uses)		
Bond anticipation notes redeemed from appropriations	100,000	203,000
Proceeds from issuance of serial bonds net of bond issuance fees	-	1,268,000
Operating transfers in	67,500	90,868
Operating transfers out	-	(6,585)
Total other financing sources	167,500	1,555,283
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(550,246)	1,471,217
Fund equity (deficit), beginning of year	(332,915)	(1,801,333)
Residual equity transfer	(489,512)	(2,799)
Fund equity (deficit), end of year	\$ (1,372,673)	\$ (332,915)

See accompanying independent auditors' report on supplementary information.

CITY OF OLEAN, NEW YORK
BALANCE SHEET - CAPITAL PROJECTS FUND - BY PROJECT
AS OF MAY 31, 2008

Project Number	Description	Cash	Due from Federal & State	Due from Other Funds	Total Assets	Accounts Payable & Accrued Expenses	BAN's/ Notes Payable	Fund Equity (Deficit)	Total Liabilities & Fund Equity
29	CHIPS	\$ 41,923	\$ 161,345	\$ -	\$ 203,268	\$ 161,345	\$ -	\$ 41,923	\$ 203,268
87	Landfill - Olean Airport	67,780	-	-	67,780	-	-	67,780	67,780
101	ALARM	15,396	-	555	15,951	-	-	15,951	15,951
102	Vehicle replacement	278,318	-	-	278,318	-	-	278,318	278,318
115	Airport/parallel taxiway	-	-	-	-	-	2,916	(2,916)	-
116	Fire arson equipment	11,471	-	-	11,471	-	-	11,471	11,471
117	Dispatch project	11,071	-	-	11,071	-	-	11,071	11,071
118	Ambulance reserve	226,945	-	5,010	231,955	-	-	231,955	231,955
120	Water filtration plant	-	-	-	-	-	249,229	(249,229)	-
121	East State bridge	(90,559)	497,298	-	406,739	307,133	-	99,606	406,739
123	Catch basin disconnect project	525,741	-	104,511	630,252	164,976	1,320,000	(854,724)	630,252
124	Reservoir replacement project	-	-	-	-	-	-	-	-
125	Main Street Bridge	38,941	-	-	38,941	-	-	38,941	38,941
127	Odor Control/air make-up units	-	-	85,810	85,810	-	850,000	(764,190)	85,810
130	Airport runway rehab. & lights	-	-	-	-	-	11,772	(11,772)	-
132	Parking lot maintenance program	21,436	-	500	21,936	-	-	21,936	21,936
133	Parking lots repaving & rehab	67,460	-	-	67,460	-	-	67,460	67,460
137	Telephone System	4,000	-	-	4,000	-	-	4,000	4,000
139	Airport Building Renovations	(26,519)	-	10,136	(16,383)	-	-	(16,383)	(16,383)
140	Brownfield Opportunity Areas Program	-	-	28,431	28,431	28,431	-	-	28,431
141	Aircraft Parking Apron	(3,134)	-	2,263	(871)	-	-	(871)	(871)
142	Roof Construction	(211,140)	-	-	(211,140)	47,214	-	(258,354)	(211,140)
143	Energy Audit	(35,700)	-	-	(35,700)	68,946	-	(104,646)	(35,700)
Totals		\$ 943,430	\$ 658,643	\$ 237,216	\$ 1,839,289	\$ 778,045	\$ 2,433,917	\$ (1,372,673)	\$ 1,839,289

CITY OF OLEAN, NEW YORK
SCHEDULE OF EXPENDITURES-
CAPITAL PROJECTS FUND - BY PROJECT
FOR THE FISCAL YEAR ENDED MAY 31, 2008

<i>Project</i>	<u>Amount</u>
CHIPS	\$ 569,531
Landfill - Olean Airport	21,055
Vehicle Replacement	16,000
Dispatch Project	26,858
East State Bridge	507,914
Catch basin disconnect project	257,027
Main Street Bridge Project	8,222
Parking Lot Maintenance	7,286
Parking Lot Repaving and Rehabilitation	52,112
Airport Building Renovations	772,402
Brownfield Opportunity Areas Program	46,671
Aircraft Parking Apron	703,572
Roof Construction	258,353
Energy Audit	104,646
	<u>\$ 3,351,649</u>

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
DEBT SERVICE FUND
AS OF MAY 31, 2008 AND 2007

	May 31 2008	May 31 2007
Assets		
Cash on deposit		
Restricted regular accounts	\$ 534,910	\$ 12,574
Due from other funds	-	21,653
Total assets	\$ 534,910	\$ 34,227
Liabilities		
Due to other funds	\$ -	\$ -
Total liabilities	-	-
Fund Equity		
Reserved for debt	529,910	29,227
Unreserved:		
Designated for subsequent year's expenditures	5,000	5,000
Total fund equity	534,910	34,227
Total liabilities and fund equity	\$ 534,910	\$ 34,227

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, 2008 AND 2007

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	May 31	May 31
	2008	2007
Revenue		
Use of money and property	\$ 11,171	\$ 60
Total revenue	11,171	60
Expenditures		
General government support	12,713	19,299
Debt service:		
Principal	1,084,000	842,616
Interest	583,879	530,406
Total expenditures	1,680,592	1,392,321
Excess (deficiency) of revenue over expenditures	(1,669,421)	(1,392,261)
Other financing sources		
Operating transfers out	-	(869)
Operating transfers in	1,680,592	1,392,243
Total other financing sources	1,680,592	1,391,374
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	11,171	(887)
Fund equity, beginning of year	34,227	32,315
Residual equity transfer	489,512	2,799
Fund equity, end of year	\$ 534,910	\$ 34,227

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
AGENCY FUND
AS OF MAY 31, 2008 AND 2007

	May 31		May 31
	2008		2007
Assets			
Cash on deposit			
Regular accounts	\$ 93,930	\$	72,252
Restricted accounts	39,821		33,022
Due from other funds	52,520		52,520
Total assets	\$ 186,271	\$	157,794
Liabilities			
Due to other funds	\$ 13,273	\$	8,273
Other liabilities	172,998		149,521
Total liabilities	\$ 186,271	\$	157,794

CITY OF OLEAN, NEW YORK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND BALANCES - AGENCY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2008

	Balance June 1, 2007	Receipts	Disbursements	Balance May 31, 2008
NYS Retirement	\$ -	\$ 1,205	\$ 1,205	\$ -
Hospitalization	390	375,909	375,328	971
US Savings Bonds	110	4,590	4,700	-
Guarantee & Bid Bonds	500	15,180	15,180	500
Guarantee & Bid deposits	1,510	9	-	1,519
Guarantee & Bid Deposits - Taylor	250	1	251	-
Building Improvement Fund-HDCP	787	-	328	459
Children's Memorial Flower Grdn	500	-	61	439
Stadium Renovations / Donations	-	2,970	-	2,970
Y&R St. John's	4,569	450	-	5,019
Mayor's Cup Golf Tournament	3,838	6,263	5,822	4,279
Concession Stand	1,049	19,483	12,186	8,346
Bike Auction	674	2,208	740	2,142
Miscellaneous Recreation	1,052	17,549	12,807	5,794
Clerk Sales	380	1,030	735	675
Civil Service Exam Fees	1,991	30	255	1,766
Bartlett House Donations	9,493	741	331	9,903
Donations Fire Equipment	3,000	-	3,000	-
Juvenile Police Donations	22	-	-	22
Police ERT	96	-	-	96
Police Drugs Donations	10,990	14,140	17,347	7,783
Police Federal Drug Proceeds	3,086	7,877	-	10,963
Youth Programs Donations	57	1,180	-	1,237
DARE	7,656	9,646	6,264	11,038
Community Policing	296	-	-	296
Youth Court Donations	9,055	1,500	-	10,555
Kids ID Kits	184	-	-	184
Tree Program	3,287	2,052	2,725	2,614
Interest & Service Charges	1,155	684	29	1,810
Management Hospitalization	3,767	-	3,767	-
Airport Donations	1,402	1,994	3,396	-
Fire Equipment Donations	1,105	13,450	12,006	2,549
Flexible Spending Account	(6,384)	33,919	33,397	(5,862)
Medical Savings Account	81,448	70,574	63,986	88,036
Payroll Account	1,217	8,959,725	8,965,152	(4,210)
Special Account	988	16,143	16,026	1,105
Totals	\$ 149,520	\$ 9,580,502	\$ 9,557,024	\$ 172,998

CITY OF OLEAN, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2008

Federal Program Title	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Receivable (Deferred Revenues) 5/31/2007	Total Received	Revenue	Expenditures	Receivable (Deferred Revenues) 5/31/2008
<u>United States Federal Aviation Administration/DOT</u>								
Airport Improvement Program Grant	20.106	FAA AIP No. 3-36-0091-10-06 NYS DOT PIN 5904.40	\$ 612,437	\$ 168,845	\$ 557,635	\$ 388,790	\$ 388,790	\$ -
Airport Improvement Program Grant	20.106	FAA AIP No. 3-36-0091-11-07 NYS DOT PIN 5904.41	968,000	-	668,393	668,393	668,393	-
Subtotal U.S. Federal Aviation Administration			1,580,437	168,845	1,226,028	1,057,183	1,057,183	-
<u>United States Department of Transportation</u>								
Federal Aid and Marchiselli Aid Project	20.205	NYS DOT/D013563 PIN 5056.17	911,600	-	-	417,034	417,034	417,034
Federal Aid and Marchiselli Aid Project	20.205	NYS DOT/D017581 PIN 5755.95.121	1,352,000	-	6,577	6,577	6,577	-
Subtotal U.S. Department of Transportation			2,263,600	-	6,577	423,611	423,611	417,034
Total expenditures			\$ 3,844,037	\$ 168,845	\$ 1,232,605	\$ 1,480,794	\$ 1,480,794	\$ 417,034

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, 2008, which collectively comprise the *City of Olean, New York's* basic financial statements and have issued our report thereon dated October 16, 2008. 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 three deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as described as items II.A.2008-1, II.A.2008-2, II.A.2008-3.

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, of the significant deficiencies described above, we consider items II.A.2008-2 and II.A.2008-3 to be material weaknesses.

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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 October 16, 2008.

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
October 16, 2008**



**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, 2008. 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, 2008.

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 October 16, 2008.

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
October 16, 2008**

CITY OF OLEAN, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2008

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 nine years and therefore, the reasonableness of the estimate cannot be determined. Additionally, under GASB No. 34, the City was required to account for infrastructure assets by the year ending May 31, 2008.
2. There were three significant deficiencies 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. Items II.A.2008-2 and II.A.2008-3 are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the *City of Olean, New York* were 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. Federal Aviation Department Airport Improvement Grant	(Type A)	20.106	\$ 1,057,183
U.S. Department of Transportation Federal Aid and Marchiselli Aid Project	(Type A)	20.205	423,611
			<u>\$ 1,480,794</u>
Total Federal Awards			<u>\$ 1,480,794</u>
Percentage of total programs tested			<u>100%</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

2008-1 Purchasing

Year ended May 31, 2008

Condition and criteria: The *City of Olean, New York's* 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 \$1,000 - \$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. Although, we noted that a signature was affixed to each voucher sampled for testing during our audit, it was brought to our attention that this procedure is performed by the accounts payable clerk, who utilizes the Auditor's signature stamp. Because of this process, there was no documentation available to determine whether the individual responsible for approving the vouchers is performing a review prior to payment being made.

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.

We recommend that the City Auditor review and approve each voucher packet and evidence this review by signing or stamping the voucher. In the event that an individual other than the Auditor is assigned the task of stamping the voucher, this should be done subsequent to Auditor's review, under the direction and supervision of the Auditor and performed by someone independent of the accounts payable clerk. In addition, there should be strong controls over the signature stamp. Lastly, 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 Auditor will sign or stamp each voucher packet once reviewed. Lastly, the City will consider formally appointing an individual that would be authorized to approve payments in the City Auditor's absence.

Year Ended May 31, 2007

Similar finding was reported upon in prior year.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. Internal Control over Financial Reporting (Continued)

2008-2 Segregation of Duties

Year ended May 31, 2008

Condition and Criteria:

Payroll: During the audit, it was noted that a single individual is responsible for maintaining the employee database, including pay rates, as well as processing bi-weekly payrolls. Although procedures have been put in place by this individual to ensure the accuracy of each payroll, there is no second individual within the process to ensure the accuracy of the payroll.

Bank reconciliations: During the audit, we understand that presently there is no review performed by someone independent of the preparer of the bank reconciliations.

Effect: Segregation of duties is a key element to an effective internal control environment. Because payroll and benefits is the single most significant expense of the entire City and the reconciliation of cash is vital to its operations, the lack of proper segregation of duties in these areas heightens the City's risk of potential errors and fraud in these areas.

Auditors' Recommendations:

Payroll: The conflicting duties of maintaining the employee database and the processing of the payroll should be segregated across personnel. The software systems to process such transactions should limit access to these areas to only those responsible for performing such transactions, with such access being routinely reviewed by a member of management. Prior to the issuance of checks, at least one individual other than the individual responsible for processing the payroll should review the process for accuracy. If possible, such review should include performing analytical reviews in comparison with prior payrolls. This review should be documented to substantiate that it has been completed. Lastly, the City should also consider having someone independent of the payroll function distribute all checks or direct deposit vouchers to all employees on a surprise basis once or twice per year. During this exercise, each employee would be required to sign a listing of City employees when receiving their paycheck. This procedure would enhance the City's controls over the payroll cycle and minimize the risk of duplicate paychecks or paychecks to fictitious employees. We understand that subsequent to the fiscal year, the City outsourced its payroll function. As a result, some of the recommendations listed above should be modified to have sufficient controls in place over the third-party provider.

Bank reconciliations: Accurate and timely bank reconciliations are a significant control function over the City's funds. The review of such reconciliations ensure that they are prepared accurately and timely. We recommend that a review of bank reconciliations be performed monthly by someone independent of the preparer and that this review be clearly documented. The review should consist of comparing the reconciliation with bank statements and general ledger account balances, along with following-up on unusual reconciling items.

City's Response:

Payroll: Due to the pending retirement of the current Payroll Clerk, the **City of Olean** has utilized a third party in the preparation of payroll. The City believes that this will alleviate some of the concerns regarding segregation of duties in the payroll process.

Bank Reconciliations: Due to the nature, complexity, and manual nature of the City's finance structure, the City Auditor is responsible for preparing the bank reconciliations for the majority of the accounts. Although the Mayor or City Clerk could review the reconciliations, they do not have the technical accounting expertise to be able to make sense of them. The City will consider the auditor recommendation.

Year Ended May 31, 2007

This finding was not reported upon in the prior fiscal year.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

2008-3 Water and Sewer Receivables

Year ended May 31, 2008

Condition and criteria: During the current year, the *City of Olean, New York's* converted its billing, collections and receivable accounting systems in the water and sewer funds. During the audit, the City was unable to generate year-end reports that detailed outstanding receivables by resident, in an aged format. In addition, the City has three geographical zones which are billed on different quarterly cycles. As a result, the City must estimate accounts receivable balances outstanding for the zones that overlap its fiscal year. During the audit, summaries of the billings utilized to build such estimates were generated but detail to support the summaries was unavailable.

Effect: Because the City can not generate detailed reports by resident and in an aged format, it does not have the ability to monitor past due balances and identify any collectibility issues or potential errors in reporting.

Auditors' Recommendations: We recommend that the City work closely with its software provider to resolve this situation. Specific year-end reports should be requested from the provider so that outstanding water and sewer receivable balances and collections can be closely monitored throughout the year. In addition, the City should consider analyzing receivables throughout the year with historical levels and expectations, either monthly or quarterly. Any differences from expectations should be immediately investigated and explained.

City's Response: For over 18 months, the City has been in the process of switching software providers. It has come to the point where the software is unable to provide certain items, which the City deems critical. Water and Sewer Receivables are a prime example. Therefore, the City is looking into once again switching to a different program. Once conversion is complete this situation should be improved.

Year Ended May 31, 2007

This finding was not reported upon in prior year.

B. Compliance

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

Year Ended May 31, 2008

The finding is not being reported upon during the current fiscal year, as the City utilized proceeds from deficit financing to replenish the amounts owed to the Capital Project Funds from the General, Water, and Sewer Funds.

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.

III. MAJOR FEDERAL AWARD PROGRAMS AUDIT – FINDINGS AND QUESTIONED COSTS

A. Compliance

Year ended May 31, 2008

No compliance findings are being reported upon during the fiscal year ended May 31, 2008.

Year ended May 31, 2007

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

B. Internal control over compliance

Year ended May 31, 2008

No findings related to internal control over compliance are being reported upon during the fiscal year ended May 31, 2008.

Year ended May 31, 2007

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



October 16, 2008

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

Ladies and Gentlemen:

We have completed our 2007-08 audit of the City's financial statements and have issued our reports thereon dated October 16, 2008. 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, 2008, 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.

CITY OF OLEAN, NEW YORK
SUMMARY OF ADDITIONAL COMMENTS
YEAR ENDED MAY 31, 2008

Deficits and Forecasting

General Fund

The *City of Olean, New York's* general fund had experienced operating deficits during the years ended May 31, 2002 through 2007, which accumulated to \$6,060,000 over this time period. Due to prior year losses, the City of Olean is left with an unreserved, undesignated fund deficit of \$1,058,000 as of May 31, 2008.

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.

Sewer Fund

The *City of Olean, New York's* sewer fund had 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 \$128,000 as of May 31, 2008. We should mention that during the fiscal years ended May 31, 2008 and 2007, total revenue exceed expenditures by approximately \$272,000 and \$284,000, respectively.

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, 2008. 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. We should mention that the City did significantly pay down this advance in the fiscal year ended May 31, 2008.

Water Fund

We would suggest the City 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.

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:

- Personal use of City's assets
- Credit card usage, regulation and safeguarding
- Personal use of City's assets
- Travel reimbursement policy
- 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.

Risk Assessment

The City currently has not performed a formal assessment of risks, including an assessment of risk of the City's susceptibility to fraudulent activity. A risk assessment is a process in which an organization's internal control environment is evaluated against the potential for misappropriation of the City assets and the potential for fraudulent financial reporting. An effective risk assessment will result in the evaluation of the internal controls in existence, and the development and implementation of additional controls or mitigating controls in response to the determination of risks. We recommend that the City document such a risk assessment, and that management and the Council use this process as a guide in continuing to enhance its control environment in which risks are reduced to a low level. This risk assessment should be evaluated periodically as conditions change.

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.

Timely filing of State and Federal Reimbursement Requests

Currently, the City of Olean receives grant monies from various state and federal agencies. It is important to minimize the time elapsing between the payment of the expenditures and the filing of the claims for reimbursement. During the current fiscal year, we noted a few instances in which significant amounts of expenditures were incurred, but the claims for reimbursement on those expenditures were filed two to three months later. We suggest that the City maintain sound internal records tracking the expenditures and file their claims for reimbursement in a more timely manner.

Approval for Bad Debt Write-offs

The City offers various programs in which participant loans are approved by the Common Council on a loan by loan basis (Revolving Loan, First Time Homebuyer program). During the current fiscal year we noted some significant write-offs of loan balances that were deemed to be uncollectible. Based on the fact that the Common Council is responsible for authorizing the initial loans, we feel it is in their best interest to be involved in the process of approving the write-off of those loans. To strengthen internal controls, we suggest the Common Council review and approve all bad debt write-offs within the aforementioned programs.

Debt Service Fund Transfers

During the current year, the City closed out the reservoir replacement project. This project was initially funded through the issuance of short-term and long-term debt. Actual expenditures for the project were less than the proceeds received from the issuance of the debt. The City transferred remaining proceeds related to the reservoir replacement project to the debt service fund which will be utilized to pay down future debt service. We recommend that the City develop a schedule which documents its intention for future transfers from the debt service fund which could be utilized when developing future sewer fund budgets.

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 and should be conducted so that proper accounting for the City's infrastructure is met.

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.

Agency Fund

Reconciliation of Medical Savings Account

Currently, the City of Olean maintains a bank account that houses medical savings plan through a third-party administrator. We recommend that the balance of this bank account and corresponding general ledger account be reconciled with balances from its third-party administrator on a monthly basis.

Adequacy of Account Activity

Currently, the City maintains over thirty-five agency funds. We suggest that Management review each fund and determine whether funds meet the definition of the City acting as the trustee or agent in a fiduciary manner. A policy should be established which dictates which funds meet this criteria and which funds should be rather included in the City's general fund.

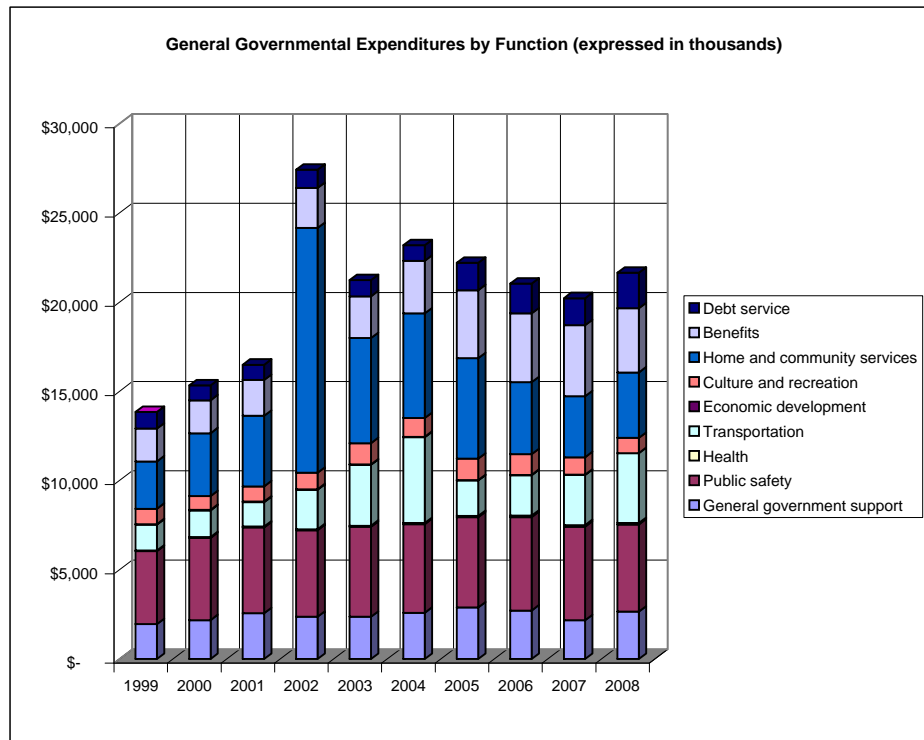
STATISTICAL SECTION

City of Olean
General Governmental Expenditures by Function
 Governmental Funds

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Function</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>	<u>2008</u>
General government support	\$ 1,953	\$ 2,180	\$ 2,566	\$ 2,369	\$ 2,370	\$ 2,588	\$ 2,885	\$ 2,716	\$ 2,173	\$ 2,648
Public safety	4,089	4,604	4,805	4,845	5,030	4,968	5,063	5,239	5,244	4,890
Health	38	43	53	54	68	61	72	82	84	85
Transportation	1,453	1,499	1,367	2,218	3,411	4,809	1,981	2,267	2,810	3,902
Economic development	26	26	26	26	26	26	26	15	15	15
Culture and recreation	860	772	859	921	1,187	1,050	1,193	1,157	981	857
Home and community services	2,654	3,528	3,955	13,723	5,892	5,860	5,637	4,037	3,411	3,661
Benefits	1,835	1,847	2,009	2,242	2,343	2,956	3,808	3,860	3,991	3,592
Debt service	940	838	846	1,025	904	874	1,530	1,660	1,512	1,997
Total	\$ 13,848	\$ 15,337	\$ 16,486	\$ 27,423	\$ 21,231	\$ 23,192	\$ 22,195	\$ 21,033	\$ 20,221	\$ 21,647

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

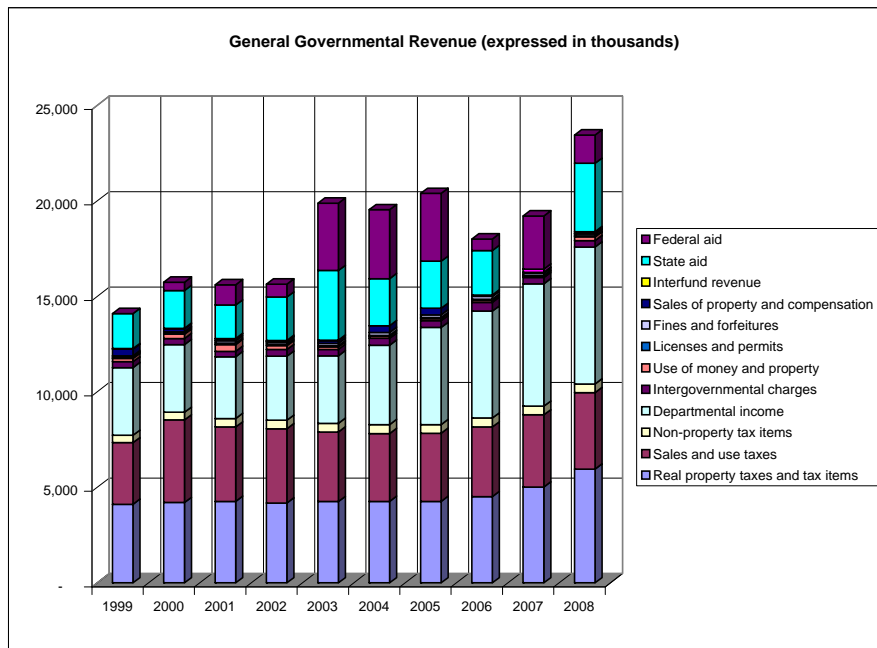


City of Olean
General Governmental Revenues by Source
 Governmental Funds

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Source</u>	<u>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>	<u>2008</u>
Real property taxes and tax items	\$ 4,113	\$ 4,207	\$ 4,263	\$ 4,179	\$ 4,254	\$ 4,262	\$ 4,262	\$ 4,518	\$ 5,013	\$ 5,954
Sales and use taxes	3,226	4,322	3,896	3,884	3,642	3,550	3,569	3,642	3,784	4,009
Non-property tax items	386	404	441	451	459	474	455	468	454	452
Departmental income	3,543	3,541	3,233	3,350	3,531	4,152	5,082	5,599	6,409	7,169
Intergovernmental charges	309	315	292	352	337	366	359	464	327	339
Use of money and property	166	230	355	202	128	103	104	95	70	189
Licenses and permits	75	61	70	85	64	59	59	64	54	52
Fines and forfeitures	69	69	116	103	130	142	142	150	110	108
Sales of property and compensation	347	153	101	41	124	355	347	21	37	33
Miscellaneous local sources	31	28	29	50	43	-	-	55	175	89
Interfund revenue	-	-	-	-	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-	59	-	-
State aid	1,825	1,982	1,750	2,270	3,640	2,463	2,460	2,324	2,774	3,575
Federal aid	7	430	1,066	679	3,530	3,611	3,551	606	1,426	1,481
	<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>	<u>\$ 23,450</u>

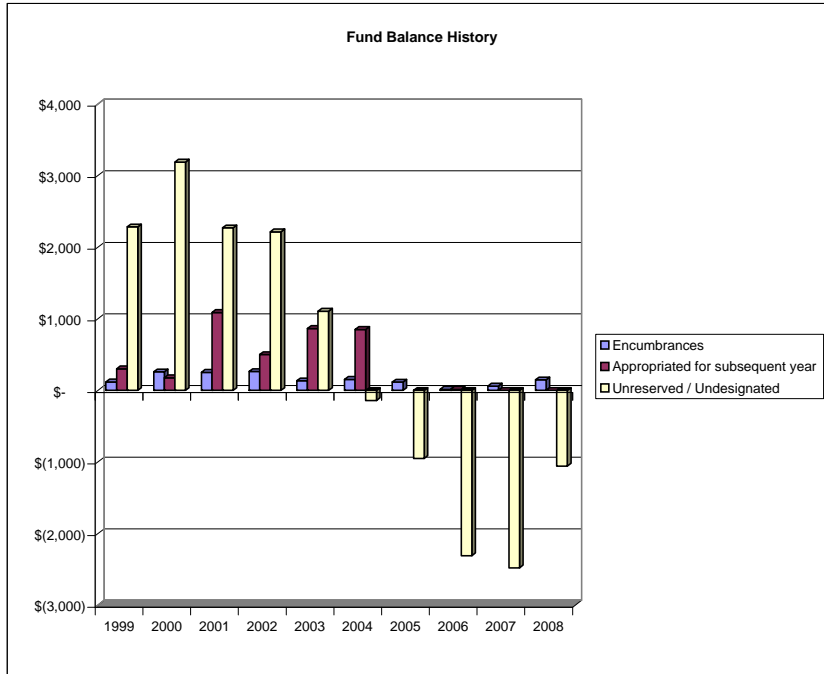
Source: City of Olean Annual Report (1998-2007)



City of Olean
Fund Balance History
 General Fund

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Source</u>	<u>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>	<u>2008</u>
Encumbrances	\$ 117	\$ 258	\$ 253	\$ 264	\$ 134	\$ 154	\$ 116	\$ 14	\$ 59	\$ 148
Appropriated for subsequent year	300	175	1,087	500	864	850		15	-	-
Unreserved / Undesignated	2,284	3,188	2,270	2,215	1,107	(141)	(949)	(2,309)	(2,480)	(1,058)
Total	\$ 2,701	\$ 3,621	\$ 3,610	\$ 2,979	\$ 2,105	\$ 863	\$ (833)	\$ (2,280)	\$ (2,421)	\$ (910)



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)

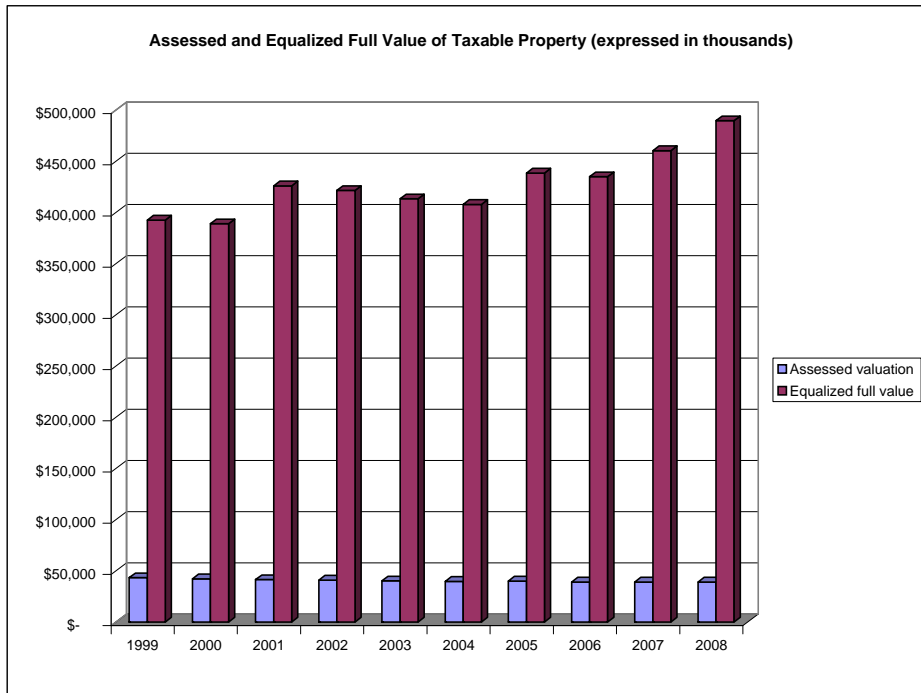
Source

	<u>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>	<u>2008</u>
Assessed valuation	\$ 43,425	\$ 42,367	\$ 41,557	\$ 41,107	\$ 40,319	\$ 39,782	\$ 40,052	\$ 39,154	\$ 39,141	\$ 39,178
Equalized full value	392,631	389,045	426,226	421,610	413,528	408,021	438,686	435,044	460,482	489,725
Ratio: Assessed value to equalized full value	<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>	<u>8.00%</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

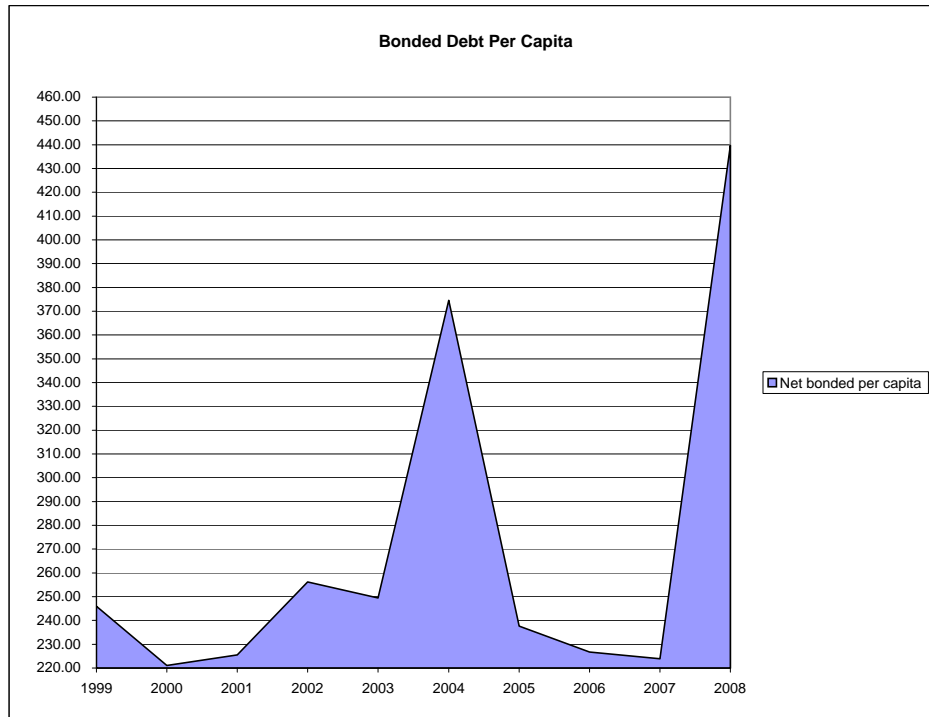
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<u>Source</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net bonded per capita	246.02	221.09	225.52	256.14	249.50	374.54	237.57	226.75	223.95	439.70
Population	16,877	16,839	16,801	15,347	15,347	15,347	15,347	15,347	15,347	15,347
Assessed value (000)	43,425	42,367	41,557	41,107	40,319	39,782	40,052	39,154	39,141	39,178
Gross bonded debt (000)	5,020	4,685	5,131	15,427	15,523	19,022	20,278	20,565	23,022	26,110
Less: self-supporting debt (000)	868	962	1,342	11,496	11,694	13,274	16,632	17,085	19,585	19,362
Net bonded debt (000)	4,152	3,723	3,789	3,931	3,829	5,748	3,646	3,480	3,437	6,748
Ratio of net bonded debt to assessed value	<u>9.56%</u>	<u>8.79%</u>	<u>9.12%</u>	<u>9.56%</u>	<u>9.50%</u>	<u>14.45%</u>	<u>9.10%</u>	<u>8.89%</u>	<u>8.78%</u>	<u>17.22%</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

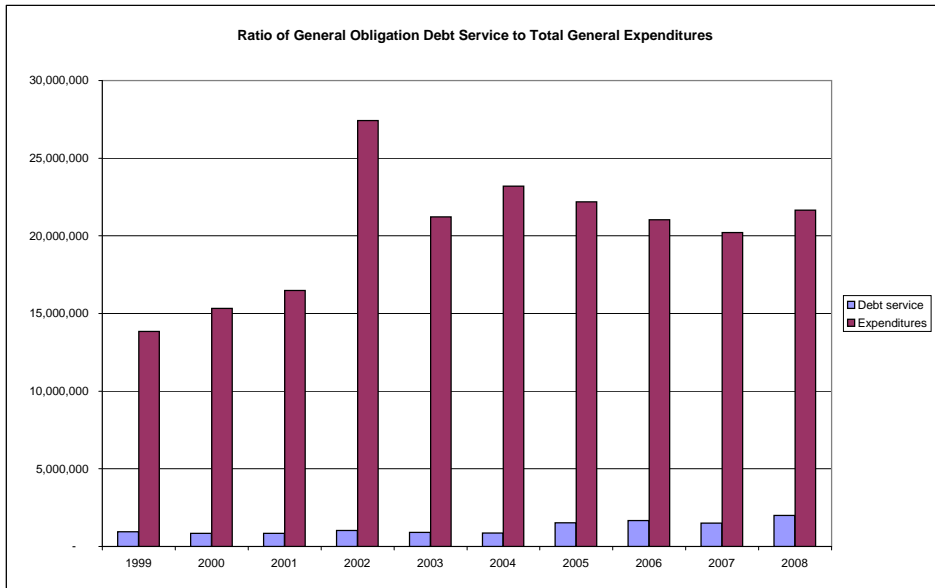
Last Ten Fiscal Years

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Source	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt service	940,000	838,000	846,000	1,025,000	904,000	874,000	1,530,000	1,660,000	1,512,000	1,997,000
Expenditures	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	21,647,000
Ratio of general debt service to total general expenditures	6.79%	5.46%	5.13%	3.74%	4.26%	3.77%	6.89%	7.89%	7.48%	9.23%

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**

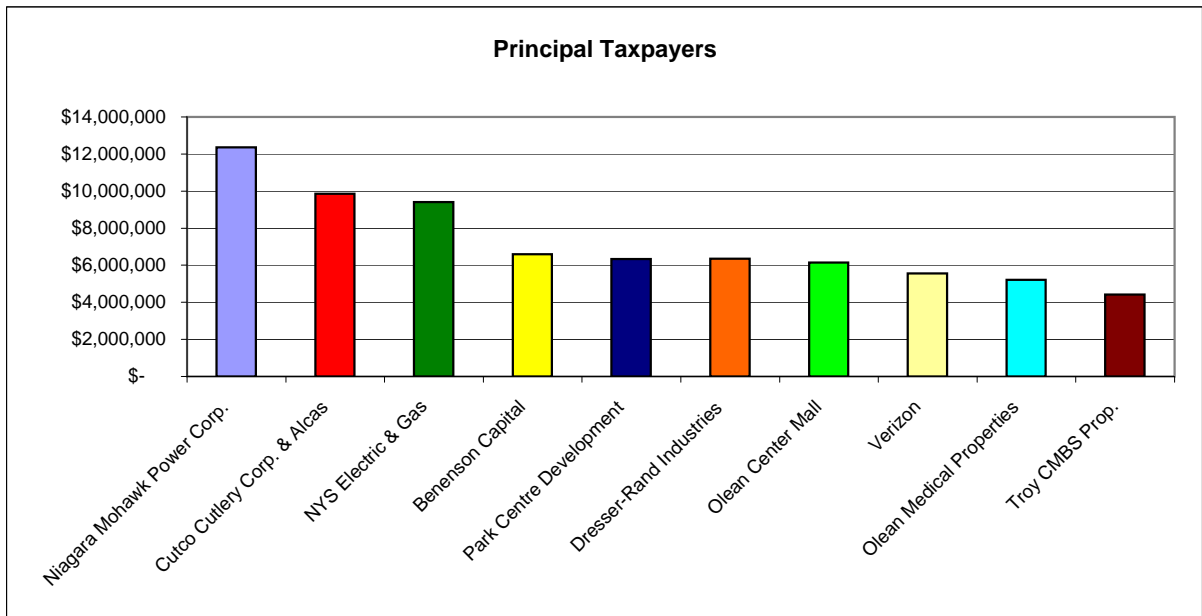
Fiscal Year Ended May 31, 2008

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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

