

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)

A. Financial Reporting Entity (Continued)

The Olean Local Development Corporation was created in 2008 by a group of citizens, including the current mayor and council president. Although it was formed to act as an economic and community development arm of the City, it is a separate entity, with a separate Board of Directors, appointed by the Mayor. Donations and grants will fund the organization. The Common Council may designate projects to be undertaken by the organization, but does not approve the entities' budgets, contracts or hiring of staff.

B. Basis of Presentation

1. Fund Financial Statements

The City of Olean uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts.

The City of Olean records its transactions in the fund types described below.

2. 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Categories (continued)

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

Basis of accounting refers to when revenues and expenditures (expenses) and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

Modified Accrual Basis - All funds are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Material Revenues that are accrued include real property taxes, state and federal aid, sales tax and certain user charges. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made and the resources are available.

Expenditures are recorded when incurred except that (a) expenditures for prepaid expenses and inventory type items are recognized at the time of purchase; (b) principal and interest on indebtedness are not recognized as an expense until they are due; and (c) compensated absences, such as vacation and sick leave which vests or accumulates, are charged as an expenditure when paid.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 October 31 with late payment penalties of 1% per month added June 1 through October 1. Taxes uncollected at October 31 are turned over to Cattaraugus County for enforcement. The City receives the full amount of such taxes, plus the additional 5% penalty, within the year of levy.

E. 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.

2. Encumbrances

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. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Data (continued)

3. Budget Basis of Accounting

The Budget is 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.

F. Insurance

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.

G. 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 an estimated liability as of May 31, 2008 of approximately to \$550,000 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.

H. Litigation

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

As of May 31, 2008, the City of Olean, New York had accumulated deficits in the general fund and sewer fund of approximately \$910,000 and \$74,000, respectively. These deficits accumulated as a result of prior years operating deficits, however, they were reduced in the current year by approximately \$1,510,000 and \$272,068, respectively, due to operating surplus in the current year. The accumulated surplus in the water was approximately \$388,000, as of May 31, 2008.

The City of Olean, New York's capital project funds also had an accumulated deficit as of May 31, 2008 which totaled approximately \$1,272,000. It is not uncommon for municipalities to have deficit fund balances in the capital project fund as a result of short-term debt (bond anticipation notes) being recorded as liabilities until they are converted to long-term debt at which time such proceeds are recorded as other financing sources (revenue). However, as of May 31, 2007, the City of Olean, New York had certain projects that if closed out would have deficit fund balances. The City issued deficit financing bond anticipation notes (see Note 3) on September 27, 2007, and used a portion of these notes to clean up any completed projects showing a deficit balance in the Capital Project Fund.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Cash and Investments

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

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

a. Deposits

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

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (continued)

1. Cash and Investments (continued)

Total financial institution (bank) balances at May 31, 2008 per the bank were approximately \$11,886,000. These deposits are categorized as follows:

Category 1	Category 2	Carrying Value
\$100,000	\$5,931,000	\$6,031,000
\$100,000	\$5,755,000	\$5,855,000

2. Capital Assets

Governmental activities:	Beginning Balance 6/1/07	Additions (Transfers from CIP And Disposals)	Ending Balance 5/31/08
Capital assets that are not depreciated:			
Land	\$ 553,070	-	\$ 553,070
Construction in progress	5,609,282	(3,617,040)	1,992,242
Capital assets that are depreciated:			
Buildings and improvements	38,061,686	6,350,291	44,411,980
Furniture and equipment	2,799,584	80,866	2,880,450
Vehicles	4,737,333	-	4,737,333
Total historical cost	50,421,446	<u>2,814,117</u>	54,575,075
Less:			
Accumulated depreciation:	19,078,916	<u>1,484,218</u>	21,796,733
Total net book value	<u>\$ 31,341,862</u>		<u>32,778,342</u>

Depreciation expense:

Buildings	\$784,253
Improvements	284,393
Vehicles	258,411
Equipment	<u>157,161</u>
	<u>1,484,218</u>

NOTE 3 - DETAIL NOTES ON ALL FUNDS (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	\$ 215,152
General Fund	Due from Federal & State - NYS sales tax	695,154
General Fund	Other receivables	11,256
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	454,973
1 st Time Home	Loan receivable	149,715
Housing Rehab	Loan receivable	8,743
Capital Projects	Due from Federal & State - various projects	658,643
		<u>3,571,227</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	11,256	
Revolving loans		\$ 613,429
	<u>\$ 4,024,008</u>	<u>\$ 613,429</u>

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.

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(Continued)

B. Liabilities (continued)

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.

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. Payment is due by February 1, however is payment is made by December 15 of the preceding year, the City can take a 1% discount. This was done for the first time in for the year ended May 31, 2008. The contributions for the current year and two preceding years were:

		ERS	PFRS
May 31,	2008	\$331,184	\$564,759
	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.

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(Continued)

B. Liabilities (continued)

2. Pension Plans (continued)

b. Funding Policy (continued)

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 \$86,000 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.

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.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

3. Short-Term Debt (continued)

a. Bond Anticipation Notes (continued)

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.

The City's bond anticipation notes for capital purposes outstanding as of May 31, 2008 are as follows:

Description	Amount	Interest Rate	Budget Appr. May 31, 2009
Sanitary Sewer Sys.	1,320,000	4.0%	50,000
Sewer Improv.	490,000	4.0%	30,000
Odor Control WTP	360,000	4.0%	20,000
Totals	\$2,170,000		\$100,000

On September 25, 2007 The City of Olean also issued BANs related to Deficit Financing related to a resolution adopted August 28, 2007 by the governing body. This financing would liquidate the accumulated deficits in the City's General, Water, and Sewer Funds as of May 31, 2007, in a maximum amount not to exceed \$4,300,000. The issuance of such debt instruments is pursuant to the local finance law and to Chapter 331 of the 2007 Laws of New York State.

The City's bond anticipation note for deficit financing purposes outstanding as of May 31, 2008 is as follows:

Description	Amount	Interest Rate	Budget Appr. May 31, 2009
Deficit Financing	4,300,000	3.74%	0

b. Short-Term Debt Interest

Interest expense related to the capital project BANs amounted to \$151,525 during the fiscal year ended May 31, 2008. No interest expense related to the deficit financing BAN was recorded.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (continued)

3. Short-Term Debt (continued)

c. Revenue Anticipation Notes

Liabilities for Revenue Anticipation Notes Payable (RANs) are generally accounted for as a current liability of the fund that will actually receive the proceeds from issuance of the notes. RANs are short-term municipal debt obligations use 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.

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

Description	Amount	Interest Rate	Budget Appr. May 31, 2009
RAN	3,500,000	4.00%	139,223

4. Long-Term Debt

a. Debt Limit

At May 31, 2008 the total outstanding indebtedness of the City aggregated \$26,090,000 (including bond anticipation notes and revenue anticipation notes). Of this amount, \$6,698,000 is subject to the constitutional debt limit and represented approximately 22% 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 \$97,880

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 Improv. 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 – Variou s	08/04	207,262	Various	08/14	86,250
Sewer Fund – Variou s	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 – PI Bond	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			12,079,000
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>15,954,000</u>
Due to other				
Governments	188,953		23,054	165,899
Environmental liability	1,283,000			1,283,000
Compensated Absences	581,796		31,796	550,000
	<u>2,053,749</u>			<u>1,998,899</u>
	<u>\$ 19,091,749</u>			<u>\$ 17,982,899</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	1,748,946	1,103,282	645,664
2010	1,635,815	1,027,516	608,299
2011	1,482,968	911,752	571,216
2012	1,326,521	785,991	540,530
Thereafter	<u>18,375,737</u>	<u>12,125,459</u>	<u>6,250,278</u>
Total	<u>\$24,569,987</u>	<u>\$ 15,954,000</u>	<u>\$ 8,615,987</u>

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.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

D. Fund Equity Reserves

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	<u>492,311</u>
		<u>\$ 714,095</u>

2. Unreserved

a. General Fund

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

b. Debt Service Fund

The amount of \$55,000 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:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Long-Term Advances Receivable</u>	<u>Long-Term Advances Payable</u>	<u>Interfund Revenue</u>	<u>Interfund Expenditures</u>
General Fund	18,273	99,415	641,496	-	-	748,128
Capital Projects Fund	237,216	-	-	-	67,500	-
Agency Fund	52,520	13,273	-	-	-	-
Debt Service Fund	-	-	-	-	-	-
Sewer Fund	-	190,321	-	358,075	1,680,592	-
Water Fund	-	-	-	283,421	-	964,811
Other Special Revenue Funds	-	5,000	-	-	-	35,153
Totals	<u>\$ 308,009</u>	<u>\$ 308,009</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.

**NOTE 4 – COMMITMENTS AND CONTINGENCIES
(Continued)**

D. Litigation

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

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

E. Environmental

In 1994 the City of Olean, New York determined that leakage problems existed at the site of its former landfill in Ischua, New York. The City was issued an Order on Consent by the Department of Environmental Conservation (DEC) which required the City to prepare an engineering report for the wetland treatment system and to construct a leachate collection and treatment system. During the 2000-01 fiscal year, the City prepared and forwarded this report to the DEC and is awaiting their response regarding the construction of the leachate collection and treatment system. The City has accrued \$125,000 as of May 31, 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)

E. Environmental (continued)

The City of Olean, New York has negotiated a settlement with the Department of Environmental Conservation (DEC) regarding the City's wastewater treatment plant. The final Order on Consent includes a schedule of compliance which sets forth dates for various plans of action concerning the wastewater treatment plant and requires the City to complete and submit an assessment of its sanitary sewer system, pumping stations, and a wet weather operation plan. 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 designed for the first two phases of this project. On August 19, 2005 the City issued an additional BAN in the amount of \$700,000 for the last phases of this project.

In a prior year, the City accrued \$1,500,000 in the statement of net assets as an estimate of the cost of remedial actions; this amount has been reduced by \$280,000 in a prior year for costs incurred and as of May 31, 2008, the estimated liability stands at \$1,158,000.

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 2007. As a result, the City had accumulated deficits in its general, water and sewer funds as of May 31, 2007. During the fiscal years ended May 31, 2004 through 2007, 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 during the year in the general, water and sewer funds. The City repaid the capital projects fund for all previously borrowed funds in September, 2007.

