CITY OF OLEAN, NEW YORK

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED MAY 31, 2010 WITH INDEPENDENT AUDITORS' REPORT

CITY OF OLEAN, NEW YORK

MAY 31, 2010

TABLE OF CONTENTS

CITY OF OLEAN, NEW YORK

MAY 31, 2010

TABLE OF CONTENTS

Supplementary Information (continued)

Water Fund

Sewer Fund

Revolving Loan Fund

Housing Rehabilitation Fund

First Time Homebuyers Fund

Capital Projects Fund

Debt Service Fund

CITY OF OLEAN, NEW YORK

MAY 31, 2010

TABLE OF CONTENTS

B▲W▲B

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Certified Public Accountants ▲ Business Advisors

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, 2010, 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, 2009 financial statements and, in our report dated October 2, 2009; we expressed an unqualified opinion on the financial statements of the governmental activities and a qualified opinion on the fund financial statements.

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 and infrastructure are reported at estimated historical costs as required by accounting principles generally accepted in the United States of America. However, although the City conducted an independent appraisal of its fixed assets in 2009, an evaluation and reconciliation of the appraisal to the recorded costs has not been performed and therefore, the reasonableness of the recorded costs could not be verified.

In our opinion, except for the effects of the recorded cost of the City's fixed assets and infrastructure 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, 2010, and the results of the respective changes in financial position and the budgetary comparison for the general fund, special revenue funds, and debt service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 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
November 19, 2010

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, 2010. 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, 2010:

- Overall net assets of the City increased during the current year in the amount of $4,952,000, as compared to an increase of $4,733,000 during the prior fiscal year.
- Total net assets of the City as of May 31, 2010 amounted to approximately $23,734,000.
- The City's total revenue decreased approximately 3% from $24,672,000 during the fiscal year ended May 31, 2009 to $23,883,000 during the fiscal year ended May 31, 2010. This decrease was primarily the result of declines in operating and capital grants, sales tax and use revenues, and state municipal aid.
- The City's total expenses decreased approximately 5% from $19,939,000 during fiscal year ended May 31, 2009 to $18,931,000 during the fiscal year ended May 31, 2010. This decrease was primarily related to lower debt service costs, demolition costs to unsafe buildings, consulting fees, and lower operating costs in the central city garage and parks department.
- The City incurred capital costs in the amount of approximately $8,253,000 primarily related to the purchase of new vehicles, street equipment, other general equipment, and work performed on both the City's Energy Audit and Two Mile Sewer Projects.
- The general fund reported an overall fund balance of approximately $2,708,000 as of May 31, 2010.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Assets

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

2. Statement of Activities

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

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

III. Overview of the Financial Statements (continued)

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

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

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

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

III. Overview of the Financial Statements (continued)

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

The City has two kinds of funds:

1. Governmental Funds

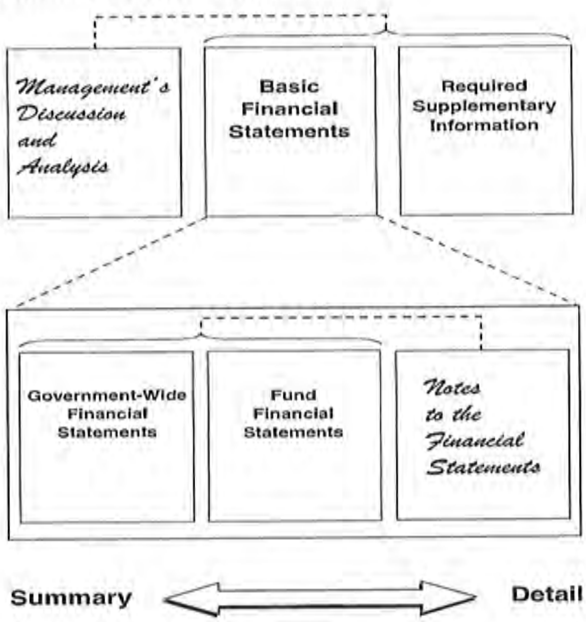
Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending.

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

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

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

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



III. Overview of the Financial Statements (continued)

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

2. Fiduciary Funds

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

IV. Financial Analysis of the City as a Whole

Net Assets

The City's total reporting entity net assets increased $4,952,000 or 26%. The components of net assets include: invested in capital assets, net of related debt of $20,145,000; restricted net assets of $529,000; and unrestricted net assets of $3,060,000 as of May 31, 2010.

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

Changes in Net Assets

The City's total government-wide revenue was $23,883,000. Approximately 28%, 18%, and 42% 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 $18,931,000 for the fiscal year ended May 31, 2010. The City's expenses cover a range of services, with 13%, 28%, 11%, and 19% 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 28% of the City's total revenue for governmental activities. Total property taxes increased approximately $231,000 or 4% during the current fiscal year. This increase was primarily the result of a 4.82% increase in the tax rate for the 2009-10 fiscal year.
- One of the City's most significant general revenue is non-property taxes, which represents $4,271,000 or 18% of total governmental revenue. Total non-property taxes decreased approximately $295,000 or 6% as a result of an overall decrease in sales and use tax revenues.
- The City's program revenue totaled approximately $10,142,000. Program revenue consists of charges for services in the amount of $8,711,000, which is primarily related to revenue received in the special revenue funds of approximately $7,017,000. 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 $278,000, which relate to grants including the operation of the local OATS bus, court facilities and security, and the youth bureau; and capital grants and contributions in the amount of $1,153,000, which consists of grants related to the City's capital project funds. These projects include federal and state grants for bridge replacement (NYS DOT and Marchesilli), pump station renovations (HUD), airport improvements (FAA and NYS DOT), flood damage (FEMA), CHIPS program (NYS DOT and Marchesilli), Energy audit and the sewer project.

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

Revenue (continued)

Total charges for services increased approximately 8% during the current fiscal year as a result of increases in water and sewer revenue correlating with rate increases. Total operating grants decreased approximately 74% during the current fiscal year, as a result of one-time grant funding for OATS bus and for grant funding received which was passed through to a local company in an effort to create jobs both received in the prior year. Lastly, capital grants and contributions decreased approximately 29% during the current year, which was primarily related to decreased grants for airport renovations and the East State Street Bridge project, in comparison to the prior year.

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 $18,931,000.

- The City's general governmental support was approximately $2,442,000 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 4% as a result in part due to an increase in computer software costs and an increase in consulting fees.

- The City's public safety costs were approximately $5,306,000 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 an declines in police department and fire department overtime costs.

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

Expenses (continued)

- Transportation costs of the City were approximately $2,029,000 or 11% 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 15% during the current year as a result of increased costs related to the OATs program.

- The City's culture and recreation costs were approximately $854,000 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 17% which was primarily related to a decline in park renovation costs and other declines in outside service costs.

- Home and community services costs were approximately $3,592,000 or 19% of total expenditures. 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 22% during the current year, primarily related to grant funding received by the City which was passed through to a local company in the prior fiscal year. There were no such costs incurred during the current fiscal year.

- Employee benefit costs were approximately $3,562,000 or 19% 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 increased approximately 1% during the current fiscal year primarily as a result of health insurance costs.

- During the current fiscal year, the City had debt service costs of $1,038,000. 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)

	2010	2009	Change
Assets			
Current and other assets	$ 19,335	$ 23,799	-19%
Capital Assets	44,449	37,584	18%
Total assets	$ 63,784	$ 61,383	4%
Liabilities			
Other liabilities	$ 6,362	$ 7,803	-18%
Long-term debt outstanding	33,688	34,778	-3%
Total liabilities	40,050	42,581	-6%
Net Assets			
Invested in capital assets, net of related debt	20,145	17,875	13%
Restricted	529	528	0%
Unrestricted (deficit)	3,060	379	707%
Total net assets	23,734	18,782	26%
Total liabilities and net assets	$ 63,784	$ 61,383	4%

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)

Revenue	2010	2009	Change
Program Revenue			
Charges for services	$ 8,711	$ 8,061	8%
Operating grants	278	1,088	-74%
Capital grants & contributions	1,153	1,630	-29%
General Revenue			
Real property taxes	6,621	6,391	4%
Special assessment tax - real property	7	2	199%
Real property tax items	325	286	14%
Non-property tax items	4,271	4,566	-6%
Use of money and property	37	121	-69%
Sales of property & compensation for loss	-	42	n/a
State aid	2,480	2,485	0%
Total revenue	23,883	24,672	-3%
Expenses			
General government support	2,442	2,351	4%
Public safety	5,306	5,583	-5%
Health	92	80	15%
Tranportation	2,029	1,767	15%
Economic development	16	16	0%
Culture and recreation	854	1,029	-17%
Home and community services	3,592	4,608	-22%
Employee benefits	3,562	3,542	1%
Debt service	1,038	963	8%
Total expenses	18,931	19,939	-5%
Change in net assets	$ 4,952	$ 4,733	

Figure A-5 – Governmental Sources of Revenue

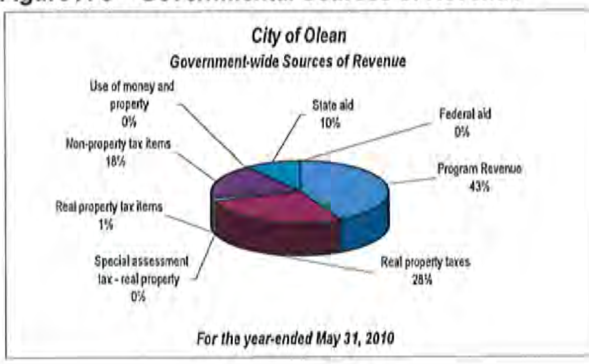
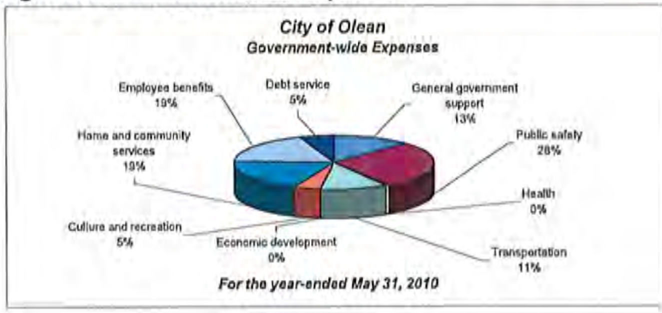


Figure A-6 – Governmental Expenses



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 $1,920,000 during the year ended May 31, 2010.
- The City's general fund undesignated, unreserved fund balance equated to approximately $2,658,000 as of May 31, 2010.
- The City had a reserve for encumbrances as of May 31, 2010, which approximated $49,000.
- The total assets for the City's general fund were $10,430,000 which decreased approximately $1,889,000 during the current year, primarily related to a decrease in cash due to not issuing a Revenue Anticipation Note during the fiscal year ended May 31, 2010. The City's general fund liabilities as of May 31, 2010 were $7,722,000 which decreased approximately $3,810,000 during the current fiscal year, primarily related to paying down debt related to deficit financing and not issuing a revenue anticipation note during the fiscal year ended May 31, 2010.

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

General Fund (continued)

- The City's total revenue in the general fund decreased approximately $191,000 or 1% during the current year as a result of decreases in revenue associated with sales tax, interest income, ambulance fees and revenue sharing. Total expenditures and other uses in the general fund decreased approximately $414,000 or 3% which was primarily related to declines in fire department overtime and culture and recreation costs incurred during the current fiscal year.

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 $7,017,000 which decreased $74,000 primarily related to decreases in revenues in the revolving loan fund ($756,000 decrease) due to a grant funding received and passed through to a local business in the prior fiscal year. This decrease was partially offset by increased revenues in the sewer fund ($474,000) and the water fund ($206,000). These increases in the water and sewer funds were directly related to increases of water and sewer rates by 1.75% and 19.39%, respectively, during the current fiscal year. Total expenditures and other uses were $5,729,000 which decreased $703,000. This decrease primarily related to a one-time expense incurred in 2008-09 related to costs incurred to start-up a local call center did not affect the current fiscal year.

Debt Service Fund

- The City's current fiscal year revenue and other sources were $1,658,000 which increased approximately $47,000 and was primarily related to an increase in long-term debt requirements. Expenditures during the current year amounted to $1,657,000 which increased approximately $40,000.

Capital Projects Fund

- During the current year, the City incurred total costs in the capital projects fund in the amount of $8,563,000. Such costs were primarily related to costs associated with the City's replacement of its East Olean Sewer ($798,000), the City's Two Mile Sewer Project ($2,612,000), Energy audit ($3,700,000), Vehicle replacement ($625,000) and the City's CHIPS program ($507,000).

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 $1,809,000 below the revised budget. The most significant variances were in the areas of public safety and general governmental support which totaled approximately $405,000 and $861,000, respectively, below that budgeted. On the other hand, resources available for appropriations were approximately $166,000 above the final budgeted amount. Significant variance of revenue items consisted of real property tax items and departmental income that were approximately $137,000 and $71,000, respectively, above that budgeted.

VII. Capital Asset and Debt Administration

Capital Assets

As of May 31, 2010, the City had a net investment of $44,449,000 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, 2010, totaled approximately $8,253,000 and consisted primarily of costs associated with the purchase of new vehicles, street equipment, and work performed on both the City's Energy Audit and Two Mile Sewer Projects. 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, 2010, the City had approximately $33,688,000 in serial bonds, capital leases, 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

City of Olean, New York
Budget vs Actual - General Fund
For the Year Ended May 31, 2010
(in thousands of dollars)

Revenue	Revised Budget	Actual	Difference
Real property taxes	$ 6,621	$ 6,621	$ -
Special assessment tax - real property	2	7	5
Real property tax items	188	325	138
Non-property tax items	4,265	4,271	6
Departmental income	1,246	1,317	71
Intergovernmental charges	164	125	(39)
Use of money and property	77	28	(50)
Licenses and permits	53	38	(15)
Fines and forfeitures	110	131	21
Sales of property and comp for loss	6	83	77
State aid	2,801	2,675	(126)
Federal aid	-	79	79
Total revenue	$ 15,532	$ 15,698	$ 166
Expenses			
General government support	$ 2,866	$ 2,005	$ 861
Public safety	5,428	5,023	405
Health	88	86	1
Tranportation	1,718	1,384	334
Economic development	15	15	-
Culture and recreation	1,111	817	294
Home and community services	160	137	24
Employee benefits	3,308	2,992	315
Debt service	300	280	20
Other financing uses			
BANS redeeemed from appropriations	-	25	(25)
Transfer to other funds	596	1,014	(418)
Total expenses	$ 15,587	$ 13,778	$ 1,809

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 due to the increased rates adopted by the Common Council of the City of Olean. For the 2010-11 fiscal year, the Council adopted a budget, and tax increase of approximately 5.6%.

- The City has completed a total re-assessment of properties that has brought the parcels to 100% of assessed value, eliminating the need the New York State equalization rates. This will result in a fair and equitable taxation of all properties in the future.

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. A major development occurring in North Olean is the rehabilitation of over 185 acres of Brownfield property. Under the direction of the EXXON Corporation, abandoned buildings and property at this site will be razed. The City feels that, once completed, this project may result in a major retail development. Located near a major federal interstate highway, such a development would result in the creation of many new job opportunities and increased property and sales tax revenues.

- 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. The expectation is that unless the stock market realizes a substantial rise in future years, all municipalities will see pension contributions to escalate in the next few years.

- One of two major projects aimed at improving the infrastructure of the City of Olean has been completed. The Two Mile Intercept Project is finished. The East End Sewer project is expected to be completed by the end of this year. It is the intention of the current administration to direct a portion of operating revenues toward a surplus account, reducing the cost to borrow for future capital projects.

- In an effort to reduce operating costs, the City is investigating the possibility of implementing a shared services program with Cattaraugus County that may result in costs savings, especially in the Department of Public Works. This is in the early stages, and discussions will continue as to how both parties can benefit. Also, the Water & Sewer Department is actively pursuing expansion of its' service area by providing the Town of Olean access to the City of Olean's water and sewer infrastructure. This could lead to increased revenues to those departments as well.

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

- Dresser-Rand, a major international corporation, is investing $9.6 million for research and development in its Olean facility. A third shift has been added, as its outlook for the near future has improved. A capital grant and other incentives through the Empire State Development Corporation and National Grid will help future growth to this large employer.

- Prior plans to close operations by Henkel Corporation has ceased with the sale of the building to Sol Epoxy. This will result in saving 40 current jobs and the creation of additional jobs. In addition, Napolean Engineering has invested heavily in construction of a manufacturing facility and will employ 30 to 40 valuable engineering jobs in the next 1-2 years.

- Olean General Hospital and the Bradford Regional Medical Center formed the Upper Alleghany Health System, and is expected to greatly improve the clinical and related services to our area. This will enable the group to retain and attract quality physicians and clinical professionals.

- The Olean Urban Renewal Agency, serving the City as a leading arm in economic development, has recently purchased a historic anchor building and adjacent properties in the center of the City of Olean in the hope of stimulating interest in additional retail and commercial activities in our downtown district.

- 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 was 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, 2009 for approximately $2,681,000.

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:

Mr. Fred Saradin, 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		2010		2009
Cash on hand	$	1,348	$	1,348
Cash on deposit				
Regular accounts		11,772,591		13,055,490
Receivables				
Refuse and garbage		1,861		1,004
Special assessment		3,040		9,648
Accounts receivable		1,802,366		1,586,758
Due from other funds		9,513		8,273
State and federal		1,362,875		1,334,191
Due from other governments		70,533		84,406
Revolving loans receivable		363,849		450,743
First Time Homebuyers loans receivable		124,418		145,730
Rehabilitation loans receivable		8,137		8,461
Other assets - other post-employment benefit		49,335		13,385
Cash to be used for capital assets		3,765,191		7,099,783
Capital assets, net		44,449,283		37,564,046
Total assets	$	63,784,340	$	61,363,266
Liabilities				
Payables				
Accounts payable	$	933,553	$	1,636,698
Accrued liabilities		787,769		713,265
Due to other funds		2,716		2,716
Other liabilities		226,258		194,349
Deferred revenue		4,411,664		5,250,938
Long-term liabilities				
Portion due or payable within one year				
Due to other governments		23,751		23,516
Revenue anticipation notes payable		-		2,800,000
Bond anticipation notes payable - construction		12,906,086		11,915,000
Bond anticipation notes payable - deficit financing		2,729,851		3,030,937
NYS EFC notes		280,000		275,000
Serial bonds payable		737,190		729,000
Capital leases		120,795		-
Environmental liability		225,000		225,000
Retirement incentive		220,000		216,000
Compensated absences		73,000		78,000
Other liabilities		5,000		89,500
Portion due or payable after one year				
Due to other governments		95,354		119,103
NYS EFC notes		5,685,000		5,965,000
Serial bonds payable		8,412,000		7,905,000
Capital leases		1,216,741		-
Environmental liability		517,000		663,000
Retirement incentive		102,495		337,208
Compensated absences		339,137		407,027
Other liabilities		-		5,000
Total liabilities		40,050,360		42,581,257
Net Assets				
Investment in capital assets, net of related debt		20,145,284		17,874,829
Restricted for				
Reserved for debt		528,969		528,060
Unrestricted:				
Designated		221,716		115,354
Undesignated		2,838,011		263,766
Total net assets		23,733,980		18,782,009
Total liabilities and net assets	$	63,784,340	$	61,363,266

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

		Program Revenues			2010	2009
	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
Functions/Programs						
General government support	$ 2,441,853	$ 215,709	$ -	$ 588,809	$ (1,637,335)	$ (1,559,208)
Public safety	5,306,491	201,174	52,870	1,780	(5,050,667)	(5,231,914)
Health	91,657	744,238	-	-	652,581	608,052
Transportation	2,028,674	372,355	203,470	83,175	(1,369,674)	(690,548)
Economic development	15,928	10,277	-	-	(5,651)	(6,470)
Culture and recreation	854,348	252,696	18,343	-	(583,309)	(759,617)
Home and community services	3,591,975	5,281,763	2,124	479,570	2,171,482	1,711,121
Employee benefits	3,562,223	1,274,376	-	-	(2,287,847)	(2,429,945)
Debt service - interest & issuance fees	1,037,691	358,408	-	-	(679,283)	(802,323)
Total functions and programs	$ 18,930,840	$ 8,710,996	$ 276,807	$ 1,153,334	(8,789,703)	(9,160,852)
General Revenues						
Real property taxes					6,621,354	6,390,786
Special assessment tax - real property					6,826	2,283
Real property tax items					325,298	286,262
Non-property tax items					4,271,314	4,566,227
Use of money and property					37,311	120,903
Sales of property and compensation for loss					-	41,941
State aid					2,479,571	2,485,107
Total general revenues					13,741,674	13,893,509
Change in net assets					4,951,971	4,732,657
Net assets - beginning of year					18,782,009	13,424,488
Prior period adjustment					-	624,864
Net assets - end of year					$ 23,733,980	$ 18,782,009

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

	Major Funds					Non-Major Funds		
	General	Water	Sewer	Debt Service	Capital Project Funds	Special Revenue Funds	2010 (Memo only) Total	2009 (Memo only) Total
Assets								
Cash on hand	$ 1,308	$ 40	$ -	$ -	$ -	$ -	$ 1,348	$ 1,348
Cash on deposit								
Regular accounts	8,661,246	940,218	671,094	528,969	4,500,668	235,587	15,537,782	20,155,273
Receivables								
Refuse and garbage	1,861	-	-	-	-	-	1,861	1,004
Special assessment	3,040	-	-	-	-	-	3,040	9,648
Accounts receivable	208,388	810,556	783,422	-	-	-	1,802,366	1,586,758
Due from other funds	6,797	-	-	-	508,156	-	514,953	648,959
Advances to other funds	810,000	-	-	-	-	-	810,000	632,900
State and federal	737,289	47,847	41,127	-	536,612	-	1,362,875	1,334,191
Revolving loans receivable	-	-	-	-	-	363,849	363,849	450,743
First Time Homebuyers loans receivable	-	-	-	-	-	124,418	124,418	145,730
Rehabilitation loans receivable	-	-	-	-	-	8,137	8,137	8,461
Total assets	$ 10,429,929	$ 1,798,661	$ 1,495,643	$ 528,969	$ 5,545,436	$ 731,991	$ 20,530,629	$ 24,975,015
Liabilities								
Accounts payable and retainage payable	$ 157,138	$ 67,487	$ 57,786	$ -	$ 651,142	$ -	$ 933,553	$ 1,636,698
Accrued liabilities	668,268	38,915	27,510	-	100,000	-	834,693	781,265
Due to other funds	387,597	-	120,559	-	-	-	508,156	643,402
Advances from other funds	-	797,649	12,351	-	-	-	810,000	632,900
Due to employee retirement system	171,500	19,167	17,500	-	-	-	208,167	155,833
Other liabilities	5,389	-	-	-	-	12,778	18,167	38,516
Deferred revenue	3,915,263	-	-	-	-	496,401	4,411,664	5,250,938
Revenue anticipation notes payable	-	-	-	-	-	-	-	2,800,000
Bond anticipation notes - construction	-	-	-	-	12,955,000	-	12,955,000	11,915,000
Bond anticipation notes - deficit financing	2,417,020	-	-	-	263,917	-	2,680,937	3,030,937
Total liabilities	7,722,175	923,218	235,706	-	13,970,059	509,179	23,360,337	26,885,489
Fund Equity								
Reserved for encumbrances	49,368	41,400	130,948	-	-	-	221,716	115,354
Reserved for debt	-	-	-	528,969	-	-	528,969	528,060
Unreserved:								
Undesignated (deficit) reported as major:	2,658,386	834,043	1,128,989	-	(8,424,623)	-	(3,803,205)	(2,664,301)
Undesignated (deficit) reported as nonmajor:								
Special revenue funds	-	-	-	-	-	222,812	222,812	110,413
Total fund equity (deficit)	2,707,754	875,443	1,259,937	528,969	(8,424,623)	222,812	(2,829,708)	(1,910,474)
Total liabilities and fund equity	$ 10,429,929	$ 1,798,661	$ 1,495,643	$ 528,969	$ 5,545,436	$ 731,991	$ 20,530,629	$ 24,975,015

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		
					Capital	Special	2010	2009
				Debt	Project	Revenue	(Memo only)	(Memo only)
Revenue	General	Water	Sewer	Service	Funds	Funds	Total	Total
Real property taxes	$ 6,621,354	$ -	$ -	$ -	$ -	$ -	$ 6,621,354	$ 6,390,786
Special assessment tax - real property	6,826	-	-	-	-	-	6,826	2,283
Real property tax items	325,298	-	-	-	-	-	325,298	286,262
Non-property tax items	4,271,314	-	-	-	-	-	4,271,314	4,566,227
Departmental income	1,317,064	3,513,838	3,049,784	-	-	142,109	8,022,795	7,373,590
Intergovernmental charges	124,557	-	291,441	-	-	-	415,998	457,087
Use of money and property	26,252	-	-	858	13,727	3,044	43,881	127,285
Licenses and permits	38,193	-	-	-	-	-	38,193	77,909
Fines and forfeitures	130,554	-	-	-	-	-	130,554	95,920
Sale of property & compensation for loss	82,644	444	-	-	-	-	83,088	91,845
Miscellaneous local sources	-	-	-	-	126,219	-	126,219	76,915
State aid	2,675,154	-	13,798	-	441,413	-	3,130,365	3,170,235
Federal aid	79,100	-	-	-	585,702	2,124	666,926	1,955,316
Total revenue	15,698,310	3,514,282	3,355,023	858	1,167,061	147,277	23,882,811	24,671,660
Expenditures								
General government support	2,005,033	58,184	56,950	11,741	4,371,821	-	6,503,729	3,798,738
Public safety	5,022,682	-	-	-	13,215	-	5,035,897	5,534,121
Health	86,316	-	-	-	-	-	86,316	73,994
Transportation	1,383,930	-	-	-	617,561	-	2,001,491	2,730,571
Economic development	15,000	-	-	-	-	-	15,000	15,000
Culture and recreation	817,290	-	-	-	-	-	817,290	1,027,230
Home and community services	136,519	1,738,539	1,594,599	-	3,560,741	34,878	7,065,276	6,284,915
Employee benefits	2,991,599	421,199	415,642	-	-	-	3,828,440	3,715,291
Debt service:								
Principal	23,514	-	-	1,124,673	-	-	1,148,187	1,103,280
Interest	256,624	32,302	193,431	520,461	-	-	1,002,818	961,942
Total expenditures	12,738,507	2,250,224	2,260,622	1,656,875	8,563,338	34,878	27,504,444	25,245,082
Excess (deficiency) of revenue over expenditures	2,959,803	1,264,058	1,094,401	(1,656,017)	(7,396,277)	112,399	(3,621,633)	(573,422)
Other financing sources (uses)								
BANS redeemed from appropriations	(25,000)	-	(190,810)	-	215,810	-	-	-
Proceeds from issuance of serial bonds	-	-	-	-	1,244,190	-	1,244,190	-
Proceeds from issuance of capital leases	-	-	-	-	1,458,209	-	1,458,209	-
Operating transfers in	-	-	-	1,656,926	449,795	-	2,106,721	2,018,567
Operating transfers out	(1,014,325)	(930,931)	(61,066)	-	(100,399)	-	(2,106,721)	(2,018,567)
Total other financing sources (uses)	(1,039,325)	(930,931)	(251,876)	1,656,926	3,267,605	-	2,702,399	-
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	1,920,478	333,127	842,525	909	(4,128,672)	112,399	(919,234)	(573,422)
Fund equity (deficit), beginning of year	787,276	542,316	417,412	528,060	(4,295,951)	110,413	(1,910,474)	(1,337,052)
Fund equity (deficit), end of year	$ 2,707,754	$ 875,443	$ 1,259,937	$ 528,969	$ (8,424,623)	$ 222,812	$ (2,829,708)	$ (1,910,474)

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

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2010

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Real property taxes	$ 6,621,354	$ 6,621,354	$ 6,621,354	$ -	$ -
Special assessment tax - real property	2,187	2,187	6,826	-	4,639
Real property tax items	187,655	187,655	325,298	-	137,643
Non-property tax items	4,265,000	4,265,000	4,271,314	-	6,314
Departmental income	1,246,000	1,246,000	1,317,064	-	71,064
Intergovernmental charges	163,603	163,603	124,557	-	(39,046)
Use of money and property	76,550	76,550	26,252	-	(50,298)
Licenses and permits	52,750	52,750	38,193	-	(14,557)
Fines and forfeitures	110,000	110,000	130,554	-	20,554
Sales of property and compensation for loss	6,000	6,000	82,644	-	76,644
State aid	2,801,013	2,801,013	2,675,154	-	(125,859)
Federal aid	-	-	79,100	-	79,100
Total revenue	15,532,112	15,532,112	15,698,310	-	166,198
Expenditures					
General government support	2,837,997	2,865,890	2,005,033	31,641	829,216
Public safety	5,400,529	5,427,794	5,022,682	10,658	394,454
Health	87,500	87,500	86,316	-	1,184
Transportation	1,718,061	1,718,061	1,383,930	5,735	328,396
Economic development	15,000	15,000	15,000	-	-
Culture and recreation	1,110,897	1,110,897	817,290	-	293,607
Home and community services	160,140	160,140	136,519	-	23,621
Employee benefits	3,306,338	3,306,338	2,991,599	1,334	313,405
Debt service:					
Principal	23,516	23,516	23,514	-	2
Interest	276,144	276,144	256,624	-	19,520
Total expenditures	14,936,122	14,991,280	12,738,507	49,368	2,203,405
Excess (deficiency) of revenue over expenditures	595,990	540,832	2,959,803	(49,368)	2,369,603
Other financing uses					
BANS redeemed from appropriations	-	-	(25,000)	-	(25,000)
Operating transfers out	(595,990)	(595,990)	(1,014,325)	-	(418,335)
Total other financing uses	(595,990)	(595,990)	(1,039,325)	-	(443,335)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	$ -	$ (55,158)	$ 1,920,478	$ (49,368)	$ 1,926,268

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2010

(Water Fund and Sewer Fund Only)

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	$ 6,392,217	$ 6,392,217	$ 6,563,622	$ -	$ 171,405
Intergovernmental charges	204,000	204,000	291,441	-	87,441
Sales of property and compensation for loss	-	-	444	-	444
State aid	5,000	5,000	13,798	-	8,798
Total revenue	6,601,217	6,601,217	6,869,305	-	268,088
Expenditures					
General government support	396,200	396,200	115,134	-	281,066
Home and community services	3,854,050	3,914,246	3,333,138	172,348	408,760
Employee benefits	883,850	883,850	836,841	-	47,009
Debt service - interest expense	16,555	16,555	225,733	-	(209,178)
Total expenditures	5,150,655	5,210,851	4,510,846	172,348	527,657
Excess (deficiency) of revenue over expenditures	1,450,562	1,390,366	2,358,459	(172,348)	795,745
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(190,810)	-	(190,810)
Operating transfers out	(1,421,593)	(1,421,593)	(991,997)	-	429,596
Total other financing sources (uses)	(1,421,593)	(1,421,593)	(1,182,807)	-	238,786
Excess (deficiency) of revenue over expenditures and other financing uses	$ 28,969	$ (31,227)	$ 1,175,652	$ (172,348)	$ 1,034,531

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

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2010

	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Use of money and property	$ -	$ 858	$ -	$ 858
Total revenue	-	858	-	858
Expenditures				
General government support	11,741	11,741	-	-
Debt service:				
Principal	1,269,000	1,124,673	-	144,327
Interest	721,842	520,461	-	201,381
Total expenditures	2,002,583	1,656,875	-	345,708
Excess (deficiency) of revenue over expenditures	(2,002,583)	(1,656,017)	-	346,566
Other financing sources (uses)				
Operating transfers out	-	-		-
Operating transfers in	1,947,583	1,656,926	-	(290,657)
Total other financing soureces (uses)	1,947,583	1,656,926	-	(290,657)
Excess (deficiency) of revenue and other financing sources over expenditures	$ (55,000)	$ 909	$ -	$ 55,909

	2010	2009
Assets		
Cash on deposit		
Regular accounts	$ 109,929	$ 114,220
Restricted accounts	109,846	100,763
Due from governmental activities - general fund	2,716	2,716
Total assets	$ 222,491	$ 217,699
Due to governmental activities - general fund	$ 9,513	$ 8,273
Other liabilities	212,978	209,426
Total liabilities	$ 222,491	$ 217,699

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AS OF MAY 31, 2010

Total fund balance - governmental funds		$	(2,829,708)
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	$ 66,179,849		
Accumulated depreciation	(21,730,566)		
			44,449,283
Long-term asset, related to other post employment benefits are not recognized in governmental funds until available, whereas such assets are recognized in the government-wide statements when earned			49,335
Interest on long-term assets is not accrued in governmental funds, but rather is recognized as an expenditure when due.			(178,000)
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	(48,572)		
NYS Environmental Facilities Corporation Bond	(5,965,000)		
Serial Bonds payable	(9,149,190)		
Capital leases	(1,337,536)		
Environmental liability	(517,000)		
Other liabilities - software	(5,000)		
Retirement incentive	(322,495)		
Compensated absences	(412,137)		
			(17,756,930)
Total net assets - governmental liabilities		$	23,733,980

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

	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	15,537,782	-	-	15,537,782
Receivables				
Refuse and garbage	1,861	-	-	1,861
Special assessment	3,040	-	-	3,040
Accounts receivable	1,802,366	-	-	1,802,366
Due from other funds	514,953	-	(505,440)	9,513
Advances to other funds	810,000	-	(810,000)	-
State, Federal and other governments	1,362,875	70,533	-	1,433,408
Revolving loans receivable	363,849	-	-	363,849
First Time Homebuyers loans receivable	124,418	-	-	124,418
Rehabilitation loans receivable	8,137	-	-	8,137
Other assets - OPEB	-	49,335	-	49,335
Capital Assets, net	-	44,449,283	-	44,449,283
Total assets	$ 20,530,629	$ 44,569,151	$ (1,315,440)	$ 63,784,340
Liabilities				
Accounts payable	$ 933,553	$ -	$ -	$ 933,553
Accrued liabilities	834,693	178,000	(224,924)	787,769
Due to other funds	508,156	-	(505,440)	2,716
Advances from other funds	810,000	-	(810,000)	-
Due to other governments	-	119,105	-	119,105
Due to employee retirement system	208,167	-	-	208,167
Other liabilities	18,167	-	(76)	18,091
Deferred revenue	4,411,664	-	-	4,411,664
Bond anticipation notes payable	15,635,937	-	-	15,635,937
NYS EFC note	-	5,965,000	-	5,965,000
Serial bonds payable	-	9,149,190	-	9,149,190
Capital leases	-	1,337,536		1,337,536
Environmental liability	-	517,000	225,000	742,000
Other liabilities - software	-	5,000	-	5,000
Retirement incentive	-	322,495	-	322,495
Compensated absences	-	412,137	-	412,137
Total liabilities	23,360,337	18,005,463	(1,315,440)	40,050,360
Fund equity (deficit)/net assets	(2,829,708)	26,563,688	-	23,733,980
Total liabilities and fund equity/net assets	$ 20,530,629	$ 44,569,151	$ (1,315,440)	$ 63,784,340

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, 2010

Total net change in fund balances - governmental funds		$ (919,234)
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	$ 8,253,037	
Depreciation expense	(1,367,800)	
		6,885,237
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.		146,000
Repayment of bond and other long term debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,223,814
Proceeds from long-term debt (net of issuance fees) are recorded as revenue in governmental funds. However in the statement of activities, proceeds from long-term debt is not recorded as revenue but rather the amount is recorded as a liability in the statement of net assets. Proceeds from long-term debt during the current year consisted of the following:		(2,702,399)
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.		(21,000)
In the statement of activities, certain operating expenses - compensated absences (vacation and sick days) and other post employment benefits 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.		339,553
Change in net assets of governmental activities		$ 4,951,971

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

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Total
Revenues					
Real property taxes	$ 6,621,354	$ -	$ -	$ -	$ 6,621,354
Special assessment tax - real property	6,826	-	-	-	6,826
Real property tax items	325,298	-	-	-	325,298
Non-property tax items	4,271,314	-	-	-	4,271,314
Departmental income	8,022,795	-	-	(8,022,795)	-
Intergovernmental charges	415,998	-	(13,873)	(402,125)	-
Use of money and property	43,881	-	-	(6,570)	37,311
Licenses and permits	38,193	-	-	(38,193)	-
Fines and forfeitures	130,554	-	-	(130,554)	-
Sales of property and compensation for loss	83,088	-	-	(83,088)	-
Miscellaneous local sources	126,219	-	-	(126,219)	-
State aid	3,130,365	-	-	(650,794)	2,479,571
Federal aid	666,926	-	-	(666,926)	-
Total revenues	23,882,811	-	(13,873)	(10,127,264)	13,741,674
Expenditures/Expenses					
General government support	6,503,729	(4,030,009)	(31,867)	(804,518)	1,637,335
Public safety	5,035,897	277,211	(6,617)	(255,823)	5,050,668
Health	86,316	5,341	-	(744,238)	(652,581)
Transportation	2,001,491	45,056	(17,873)	(659,000)	1,369,674
Economic development	15,000	928	-	(10,277)	5,651
Culture and recreation	817,290	37,058	-	(271,039)	583,309
Home and community services	7,065,276	(3,220,822)	(252,479)	(5,763,457)	(2,171,482)
Employee benefits	3,828,440	-	(266,217)	(1,274,376)	2,287,847
Debt service:					
Principal	1,148,187	-	(1,148,187)	-	-
Interest	1,002,818	-	21,000	(344,535)	679,283
Total expenditures/expenses	27,504,444	(6,885,237)	(1,702,240)	(10,127,264)	8,789,703
Excess (deficiency) of revenue over expenditures	(3,621,633)	6,885,237	1,688,367	-	4,951,971
Other sources and (uses)					
Proceeds from issuance of serial bonds	1,244,190	-	(1,244,190)	-	-
Proceeds from issuance of capital leases	1,458,209	-	(1,458,209)	-	-
Operating transfers in	2,106,721	-	-	(2,106,721)	-
Operating transfers out	(2,106,721)	-	-	2,106,721	-
Total other sources (uses)	2,702,399	-	(2,702,399)	-	-
Net change for the year	$ (919,234)	$ 6,885,237	$ (1,014,032)	$ -	$ 4,951,971

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.

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 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 statement of revenue, expenditures, encumbrances and changes in fund balance - budget and actual.

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

	June 1, 2009 Fund Equity	Revenues and Other Sources	Expenditures and Other Uses	May 31, 20010 Fund Equity
Total for funds included in Budget Comparison	$ 959,728	$ 6,869,305	$ 5,693,653	$ 2,135,380
Funds not included in budget comparison:				
Revolving Loan Fund	47,141	117,675	11,727	153,089
First Time Homebuyers Fund	44,391	29,112	19,138	54,365
Housing Rehabilitation Fund	18,881	490	4,013	15,358
Total Special Revenue Funds	$ 1,070,141	$ 7,016,582	$ 5,728,531	$ 2,358,192

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 2009-2010 was $3,821,284 as compared to $4,143,895 for the prior fiscal year, a decrease of $322,611. The City's General Fund Balance Sheet, as of May 31, 2010, reflects a receivable balance from Federal and State governments of $737,289, of which, $537,512 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

During the 2008-2009 fiscal year, the City had an independent appraisal of its fixed assets conducted by third-party professionals. As such, equipment and vehicles are reported at estimated historical cost based on the appraisal. Although, land, buildings and infrastructure is reported at cost and depreciated, a reconciliation of the appraisal and recorded costs has not been performed and therefore, the reasonableness of the City's estimated cost for these assets could not be verified as of May 31, 2010 and therefore, is not in accordance with generally accepted accounting principles. Because the amount reported as fixed assets are estimated, the reported cost may significantly change once the recorded costs and appraisal are verified.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Deferred Revenue

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

K. Compensated Absences

Sick leave and Comp Time Pay - certain of the City's employee groups have negotiated benefits payable based on accumulated unused sick and comp days. Generally the employee must have accumulated minimum years of service with the City and must be eligible for retirement under the provisions of either the employee retirement systems. The City has recorded an estimated liability in the government-wide financial statements as of May 31, 2010 amounting to $412,137 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, 2010, the City's bank deposits were under-collateralized by approximately $272,000.

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, 2010 per the bank were approximately $15,722,000. These deposits are categorized as follows:

Category 1	Category 2	Category 3	Carrying Value
$ 750,000	$ 14,700,000	$ 272,000	$15,722,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

2. Capital Assets

Governmental activities:	Beginning Balance 5/31/09	Additions / Transfers	Ending Balance 5/31/10
Capital assets that are not depreciated:			
Land	$ 553,070	$ 107,657	$ 660,727
Construction in progress	5,933,595	7,246,896	13,180,491
Capital assets that are depreciated:			
Buildings and improvements	44,825,645	66,227	44,891,872
Furniture and equipment	2,675,781	210,685	2,886,466
Vehicles	4,066,467	493,826	4,560,293
Total historical cost	58,054,558	$ 8,125,291	66,179,849
Less: Accumulated depreciation:	20,490,512	$ 1,240,054	21,730,566
Total net book value	$ 37,564,046		$ 44,449,283

Depreciation expense:

General governmental support	$ 403,218
Public safety	311,613
Health	5,341
Transportation	158,937
Economic development	928
Culture and recreation	50,573
Home and community services	437,190
	$ 1,367,800

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

3. Receivables

Receivables at May 31, 2010 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	$ 199,777
General Fund	Due from Federal & State - NYS sales tax	537,512
General Fund	Other receivables	213,289
Special Revenue:		
Water Fund	Accounts receivable - water rents and meter	810,556
Water Fund	Due from Federal & State	47,847
Sewer Fund	Accounts receivable - sewer rents	783,422
Sewer Fund	Due from Federal & State	41,127
Community Development:		
Revolving Loan	Loan receivable	363,849
1st Time Home	Loan receivable	124,418
Housing Rehab	Loan receivable	8,137
Capital Projects	Due from Federal & State - various projects	536,612
		$ 3,666,546

B. Liabilities

1. Deferred Revenue

Deferred revenue at May 31, 2010 was as follows:

	General Fund	Special Revenue Fund
Real property taxes	$ 3,798,479	
Payment in-lieu of taxes	113,744	
Special assessment taxes	3,040	
Revolving loans		$ 363,849
Housing Rehab		8,137
1st Time Home		124,415
	$ 3,915,263	$ 496,401

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Deferred Revenues (continued)

Deferred real property taxes reflect collections during May 2010 for real property taxes levied on May 1 for the 2010-2011 fiscal year. Deferred special assessment taxes consist of levies on property owners to be collected after May 31, 2010. 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.

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.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

2. Pension Plans (continued)

b. Funding Policy (continued)

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

		ERS	PFRS
May 31,	2010	$ 252,672	$ 552,605
	2009	288,915	584,893
	2008	322,212	566,660

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, 1998, the City entered into an agreement establishing the Olean Fire Sick Leave Pay Fund. The City is required to contribute $18,201 to this fund each year.

3. Other Post-Employment Benefits

Plan Description

The City maintains a single-employer defined benefit healthcare plan (the Plan). The Plan provides medical and dental insurance benefits to eligible retires and their spouses. Benefit provisions are based on bargaining agreements as negotiated from time to time. The Plan does not issue a publicly available financial report. Eligibility for the Plan is established by the City and specified in the City's employment contracts.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended May 31, 2010 the City contributed approximately $205,000 for plan benefits and Medicare-B reimbursements. Plan members receiving benefits contributed approximately $0 for co-payments and other required contributions.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities for a period not to exceed thirty years.

The following table summarizes the City's annual OPEB cost for 2010, the amount actually contributed to the Plan, and the changes in the City's net OPEB obligation (asset):

Normal Cost	$ 7,273
Amortization of unfunded actuarial accrued liability	161,616
Interest adjustment	(602)
Annual required contribution adjustment	1,000
Annual OPEB cost (expense)	169,287
Contributions made	(205,237)
Increase in net OPEB obligation/(asset)	(35,950)
Net OPEB obligation/(asset) – beginning of year	(13,385)
Net OPEB obligation/(asset)-end of year	$(49,335)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/10	$ 169,287	121,2%	$ (49,335)
6/30/09	$ 168,889	107.9%	$ (13,385)

Funding Status and Funding Progress

As of June 30, 2010, the actuarial accrued liability for benefits was $1,336,369, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately $0 and the ratio of unfunded actuarial liability to the covered payroll was 0% as the actuarial accrued liability was related to retirees of the City.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Funding Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual ARC of the City are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. The schedule of funding progress is intended to present multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities of benefits. As of June 30, 2010, the City has had only one actuarial valuation performed, therefore, information from previous years was not available.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the City and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the City and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:
Marital status – Based on actual health coverage election for active employees and retirees, with male spouses assumed to be three years older than female spouses. Marital status of members at the calculation date was assumed to continue throughout retirement.
Mortality – Life expectancies were based on the 1994 GAR Mortality Table.
Healthcare cost trend rate – The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment. The ultimate trend rate was selected based on historical medical CPI information. Rate of 10.0% initially, reduced to an ultimate rate of 5% after seven years.
Health insurance premiums – 2008 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.
Discount rate and cost method - Based on the historical and expected returns of the City's general assets, a discount rate of 4.5% was used. In addition, the projected unit credit actuarial cost method with linear prorating to decrement was used.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions

Amortization - The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over ten years.

4. 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 13, 2009, the ***City of Olean, New York*** issued bond anticipation notes, 2009 Series A (various purposes) in the amount of $4,265,937. The notes are dated August 13, 2009 with a maturity date of August 12, 2010 and were issued without the option of prepayment. The notes carry an interest rate of 2.32% and were issued to finance the following projects:

Deficit Financing	$ 2,680,937
Sewer system (catch basin) improvements	635,000
Improvements to various City buildings	675,000
Improvements to various City buildings (roof reconstruction)	275,000
	$ 4,265,937

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

4. Short-Term Debt (continued)

a. Bond Anticipation Notes (continued)

On August 13, 2009, the ***City of Olean, New York*** issued bond anticipation notes, 2009 Series B (various purposes) in the amount of $8,870,000. The notes are dated August 13, 2009 with a maturity date of August 12, 2010 and were issued with the option of prepayment on any date on or after February 15, 2010. The notes carry an interest rate of 3.50% and were issued to finance the following projects:

Reconstruction and Construction of Sewer Improvements – Two Mile Sewer	$ 5,000,000
Reconstruction and Construction of Water Improvements – City Water System	3,520,000
Reconstruction and construction of Sewer Improvements – City Sewer System	350,000
	$ 8,870,000

On March 30, 2010, the ***City of Olean, New York*** issued bond anticipation notes, 2010 (Sewer System) in the amount of $2,500,000. The notes are dated March 30, 2010 with a maturity date of August 12, 2010 and were issued without the option of prepayment. The notes carry an interest rate of .98% and were issued to finance the following projects:

Reconstruction and construction of East Olean Sewer System	$ 2,500,000

The City's bond anticipation notes outstanding as of May 31, 2010 are as follows:

Description		Amount	Interest Rate
Sanitary Sewer System	$	635,000	2.32%
East Olean Sewer System		2,500,000	.98%
Roof Construction		275,000	2.32%
Energy Performance Contract		4,545,000	Various
Two Mile Creek		5,000,000	Various
Deficit Financing – General Fund		1,990,023	Various
Deficit Financing – Water Fund		109,584	Various
Deficit Financing – Sewer Fund		317,413	Various
Deficit Financing- Capital Fund		263,917	Various
Totals	$	15,635,937	

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

4. Short-Term Debt (continued)

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 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. This note carried an interest rate of 3.56% and matured on August 13, 2009. The revenue anticipation note was noncallable. There were no revenue anticipation notes issued during the fiscal year ended May 31, 2010 and no outstanding balance as of May 31, 2010.

c. Short-Term Debt Interest

Interest expense related to the bond anticipation notes amounted to $430,358 during the fiscal year ended May 31, 2010 of which $177,221, $32,202, and $193,341 was incurred in the general, water, and sewer funds, respectively. Interest expense related to the revenue anticipation note outstanding during the 2009-10 fiscal year amounted to $99,403.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Debt

a. Debt Limit

At May 31, 2010 the total outstanding indebtedness of the City aggregated $30,584,000 (including bond anticipation notes and revenue anticipation notes). Of this amount, $3,695,000 is subject to the constitutional debt limit and represented approximately 11.2% 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.

On August 13, 2009, the ***City of Olean, New York*** issued serial bonds, 2009 A (various purposes) in the amount of $905,000. The bonds are dated August 13, 2009 with a maturity date of August 1, 2019 and were issued without the option of prepayment. The first principal and interest payments are due on August 1, 2010. The bonds carry interest rates ranging from 1.5% to 4.75% and were issued to finance the following projects:

Sewer System (catch basin)	$ 580,000
Wastewater treatment plan (odor control)	325,000
	$ 905,000

On August 13, 2009, the ***City of Olean, New York*** issued serial bonds, 2009 (various purposes) in the amount of $339,190. The bonds are dated August 13, 2009 with a maturity date of August 1, 2016 and were issued without the option of prepayment. The first principal and interest payments are due on August 1, 2010. The bonds carry interest rates of 4.7% and were issued to finance the following project:

Improvement to the City's Sewer System	$ 339,190

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Debt

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, 2010 was $119,105. 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 $70,533, 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 4F of the financial statements.

During the fiscal year ended May 31, 2009, the City purchased new accounting software which will be paid over a three year period. As of May 31, 2010, the City had $5,000 outstanding related to the purchase.

d. Installment Purchase Debt – Capital Leases

During the 2009-10 fiscal year, the ***City of Olean, New York*** entered into a $1,046,586 15-year capital lease with Manufacturers and Traders Trust Company in concurrence with the ***City of Olean, New York's*** Energy Performance Audit. Equipment included in the lease agreement consists of lighting and lighting controls, building envelope upgrades, a low emissivity ceiling, energy efficient motor replacement, a pump, VFD, and control upgrades to be used throughout various buildings. During the current fiscal year, principal and interest paid on this capital lease totaled approximately $56,904, which is included in the regular program expenditures.

During the 2009-10 fiscal year, the ***City of Olean, New York*** entered into a $411,623 5-year capital lease with First Niagara Bank. Equipment included in the lease agreement consists of a 2009 Vac-Con Sewer Cleaner and a 2009 Pelican Street Sweeper. During the current fiscal year, principal and interest paid on this capital lease totaled approximately $100,399, which is included in the regular program expenditures.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Debt (continued)

e. Summary Long-Term Debt

The following is a summary of bonds outstanding as of May 31, 2010:

	Issued	Original Amount	Interest Rate	Final Maturity	Outstanding May 31, 2010
General Fund					
Various Purpose	10/97	$ 2,888,000	4.50%	10/11	$ 235,000
Various Purpose	08/04	938,383	Various	08/14	240,000
Public Improvement Bond	08/06	1,160,000	Various	08/14	570,000
Special Revenue Funds					
Water Filtration Plant	03/03	2,790,591	Various	10/32	2,285,000
Water Filtration Plant	07/03	1,809,453	Various	07/23	1,350,000
Water Reservoir	07/03	4,665,163	Various	07/24	3,680,000
Water Filtration Plant	02/04	5,868,000	4.50%	02/39	5,390,000
Water Fund – Various	08/04	207,262	Various	08/14	50,000
Water Fund – Various	08/09	325,000	Various	08/19	325,000
Water Fund – Odor Control	08/09	339,190	4.70%	08/16	339,190
Sewer Fund – Various	08/04	82,905	Various	08/14	20,000
Sewer Fund – Public Imp.	08/06	80,000	Various	08/14	50,000
Sewer Fund –Various	08/09	580,000	Various	08/19	580,000
Total					$ 15,114,190

f. Changes

The following is a summary of changes in long-term liabilities for the period ended May 31, 2010:

	Payable at June 1, 2009	Additions	Reductions	Balance at May 31, 2010
Bonds	$ 3,155,000	$ 1,244,190	$ 640,000	$ 3,759,190
EFC Grid Note/Bond	2,360,000		75,000	2,285,000
EFC Grid Bond	3,880,000		200,000	3,680,000
RD Bond	5,479,000		89,000	5,390,000
Subtotal	14,874,000	1,244,190	1,004,000	15,114,190
Due to Other Governments	142,619		23,514	119,105
Other liabilities – software	94,500		89,500	5,000
Environmental Liability	888,000		146,000	742,000
Retirement Incentive	553,208		230,713	322,495
Compensated Absences	485,027		72,890	412,137
Capital Leases	-	1,458,209	120,673	1,337,536
	2,163,354	1,458,209	683,290	2,938,273
	$ 17,037,354	2,702,399	$ 1,687,290	$ 18,052,463

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Debt (continued)

g. Long-Term Debt Interest

Interest expense on long term indebtedness totaled $521,781 for the year ended May 31, 2010, of which $1,320 was recorded in the general fund, while $520,461 was recorded in the debt service fund.

h. Maturity

The following table summarizes the City's future serial bond debt, Rural Development, capital leases and EFC bond and debt service requirements as of May 31, 2010:

Year Ending May 31	Total	Principal	Interest
2011	$ 1,558,741	$ 1,017,190	$ 541,551
2012	1,376,493	892,000	484,493
2013	1,204,713	747,000	457,713
2014	1,205,399	771,000	434,399
2015	1,195,856	786,000	409,856
2016-2020	5,059,525	3,344,000	1,715,525
2021-2025	4,301,734	3,128,000	1,173,734
2026-2030	2,336,856	1,573,000	763,856
2031-2035	2,074,382	1,639,000	435,382
2036-2040	1,329,838	1,217,000	112,838
Total	$21,643,537	$ 15,114,190	$ 6,529,347

The following table summarizes the City's future amounts due to other governments as of May 31, 2010

Year Ending May 31	Total	Principal	Interest
2011	$ 24,833	$ 23,751	$ 1,082
2012	24,832	23,990	842
2013	24,835	24,232	603
2014	24,835	24,475	360
2015	22,771	22,657	114
Total	$ 122,106	$ 119,105	$ 3,001

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Debt (continued)

h. Maturity

The following is a schedule of future minimum lease payments under the capital lease including principal and interest:

Year Ending May 31	Total	Principal	Interest
2011	$ 201,538	$ 120,795	$ 80,743
2012	201,538	125,513	76,025
2013	201,538	131,493	70,045
2014	187,095	123,358	63,737
2015	113,809	56,229	57,580
2016-2020	1,081,181	780,148	301,033
Total	$ 1,986,699	$ 1,337,536	$ 649,163

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.

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. Interfund Receivables, Payables and Transactions

Interfund receivables and payables at May 31, 2010 and interfund transactions during the fiscal year ended May 31, 2010 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	$ 6,797	$ 387,597	$ 810,000	$ -	$ -	$ 1,014,325
Capital Projects Fund	508,156	-	-	-	449,795	100,399
Agency Fund	2,716	9,513	-	-	-	-
Debt Service Fund	-	-	-	-	1,656,926	-
Sewer Fund	-	120,559	-	12,351	-	61,066
Water Fund	-	-	-	797,649	-	930,931
Totals	$ 517,669	$ 517,669	$ 810,000	$ 810,000	$ 2,106,721	$ 2,106,721

E. Fund Equity Reserves

The City's fund equity is comprised of:

1. Reserves

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

Fund	Reservation Purposes	May 31, 2010
General Fund	Reserve for encumbrances	$ 49,368
Water Fund	Reserve for encumbrances	41,400
Sewer Fund	Reserve for encumbrances	130,948
Debt Service	Reserve for debt	528,969
		$ 750,685

2. Unreserved

a. General Fund

There are no amounts designated to reduce the taxes for the year ending May 31, 2011.

b. Debt Service Fund

There are no amounts designated to offset debt service payments of the ***City of Olean, New York*** during the 2010-11 fiscal year.

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 expires on May 31, 2011.

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. The City has accrued $125,000 as of May 31, 2010, for the estimated costs associated with this Order. It is not known at this time whether other remediation costs will be necessary.

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.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (continued)

F. Environmental

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.

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, 2010, the estimated liability stands at $617,000.

G. Retirement Incentives (continued)

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 $995,000, of which $745,000 was paid during prior fiscal years. The remaining $250,000 is recognized as a liability in the Statement of Net Assets. Future payments related to the incentive are as follows:

Year Ending May 31		Incentive
2011	$	149,000
2012		73,000
2013		4,000
2014		4,000
2015-2020		20,000
Total	$	250,000

NOTE 4 – COMMITMENTS AND CONTINGENCIES (continued)

G. Retirement Incentives (continued)

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 $227,000 has been paid through the fiscal year ending May 31, 2010. The remaining $73,000 is recognized as a liability in the Statement of Net Assets. Future payments related to the incentive are as follows:

Year Ending May 31	Incentive
2011	$ 73,000
Total	$ 73,000

NOTE 5 – FUND BALANCE

Accumulated Deficits

The ***City of Olean, New York's*** capital project funds had an accumulated deficit as of May 31, 2010 which totaled approximately $8,425,000. 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, 2010, the ***City of Olean, New York*** had certain projects (aircraft parking apron, airport master plan, and East State bridge) that when closed out will have deficit fund balances. As a result, the City will be required to transfer funds from its general fund to eliminate the capital project deficits. Management is developing plans to alleviate these deficits in future years.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events were evaluated through November 19, 2010, which is the date the financial statements were available to be issued.

The following debt was issued subsequent to May 31, 2010:

Bond Anticipation Notes – Capital Projects

On August 12, 2010, the ***City of Olean, New York*** issued bond anticipation notes, 2010 (various purposes) in the amount of $11,200,000. The bonds are dated August 12, 2010 with a maturity date of August 11, 2011 and were issued without the option of prepayment. The bonds carry interest rates between 1.38% to 1.5% and were used to finance the following projects:

Sanitary sewer system improvements (Two Mile sewer)	$ 4,865,000
Water system improvements	3,490,000
Sewer system improvements	345,000
Sanitary sewer system improvements (East Olean sewer system)	2,500,000
	$ 11,200,000

Issuance of Bonds

On August 1, 2010, the ***City of Olean, New York*** issued public improvement serial bonds, 2010 in the amount of $3,455,000. The bonds are dated August 1, 2010 with a maturity date of August 1, 2020 and were issued without the option of prepayment. The bonds carry interest rates between 2% to 3% and were issued to finance the following projects:

Liquidation of deficits	$ 2,000,000
Sewer system (catch basin)	585,000
Reconstruction and construction of various City owned buildings	625,000
Improvements to various City buildings	245,000
	$ 3,455,000

SUPPLEMENTARY INFORMATION

	May 31 2010	May 31 2009
Assets		
Cash on hand	$ 1,308	$ 1,308
Cash on deposit		
Regular accounts	8,661,246	10,817,825
Receivables		
Refuse and garbage	1,861	1,004
Special assessment	3,040	9,648
Accounts receivable	208,388	176,293
Due from other funds	6,797	-
Advances to other funds	810,000	632,900
State and federal	737,289	679,901
Total assets	$ 10,429,929	$ 12,318,879
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 157,138	$ 216,484
Accrued liabilities	668,268	633,335
Due to other funds	387,597	332,084
Due to employee retirement system	171,500	133,333
Other liabilities	5,389	3,341
Deferred revenues	3,915,263	4,646,006
Revenue anticipation notes payable	-	2,800,000
Bond anticipation notes payable	2,417,020	2,767,020
Total liabilities	7,722,175	11,531,603
Fund Equity		
Reserved for encumbrances	49,368	55,158
Unreserved:		
Undesignated	2,658,386	732,118
Total fund equity	2,707,754	787,276
	$ 10,429,929	$ 12,318,879

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
GENERAL FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Real property taxes	$ 6,621,354	$ 6,390,786
Special assessment tax - real property	6,826	2,283
Real property tax items	325,298	286,262
Non-property tax items	4,271,314	4,566,227
Departmental income	1,317,064	1,315,417
Intergovernmental charges	124,557	179,916
Use of money and property	26,252	106,448
Licenses and permits	38,193	77,909
Fines and forfeitures	130,554	95,920
Sales of property and compensation for loss	82,644	37,591
State aid	2,675,154	2,830,572
Federal aid	79,100	-
Total revenue	15,698,310	15,889,331
Expenditures		
General government support	2,005,033	2,022,468
Public safety	5,022,682	5,269,321
Health	86,316	73,994
Transportation	1,383,930	1,408,378
Economic development	15,000	15,000
Culture and recreation	817,290	1,027,230
Home and community services	136,519	121,809
Employee benefits	2,991,599	2,925,637
Debt service:		
Principal	23,514	23,280
Interest	256,624	332,687
Total expenditures	12,738,507	13,219,804
Excess of revenue over expenditures	2,959,803	2,669,527
Other financing uses		
BANS redeemed from appropriations	(25,000)	-
Operating transfers out	(1,014,325)	(972,251)
Total other financing uses	(1,039,325)	(972,251)
Excess of revenue and other financing sources over expenditures and other financing uses	1,920,478	1,697,276
Fund equity (deficit), beginning of year	787,276	(910,000)
Fund equity, end of year	$ 2,707,754	$ 787,276

	Water	Sewer	Community Development			(Memo only)
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	Total
Assets						
Cash on hand	$ 40	$ -	$ -	$ -	$ -	$ 40
Cash on deposit						
Regular accounts	940,218	671,094	165,867	15,358	54,362	1,846,899
Receivables						
Accounts receivable	858,403	824,549	-	-	-	1,682,952
Revolving loans receivable	-	-	363,849	-	-	363,849
First Time Homebuyers loans receivable	-	-	-	-	124,418	124,418
Rehabilitation loans receivable	-	-	-	8,137	-	8,137
Total assets	$ 1,798,661	$ 1,495,643	$ 529,716	$ 23,495	$ 178,780	$ 4,026,295
Liabilities						
Accounts payable	$ 67,487	$ 57,786	$ -	$ -	$ -	$ 125,273
Accrued liabilities	38,915	27,510	-	-	-	66,425
Due to other funds	-	120,559	-	-	-	120,559
Advances from other funds	797,649	12,351	-	-	-	810,000
Other liabilities/due to retirement systems	19,167	17,500	12,778	-	-	49,445
Deferred revenues	-	-	363,849	8,137	124,415	496,401
Total liabilities	923,218	235,706	376,627	8,137	124,415	1,668,103
Fund Equity						
Reserve for encumbrances	41,400	130,948	-	-	-	172,348
Unreserved:						
Undesignated	834,043	1,128,989	153,089	15,358	54,365	2,185,844
Total fund equity	875,443	1,259,937	153,089	15,358	54,365	2,358,192
Total liabilities and fund equity	$ 1,798,661	$ 1,495,643	$ 529,716	$ 23,495	$ 178,780	$ 4,026,295

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - ALL SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED MAY 31, 2010

			Community Development			
	Water	Sewer	Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	(Memo only) Total
Revenue						
Departmental income	$ 3,513,838	$ 3,049,784	$ 112,561	$ 475	$ 29,073	$ 6,705,731
Intergovernmental charges	-	291,441	-	-	-	291,441
Use of money and property	-	-	2,990	15	39	3,044
Sales of property & compensation for loss	444	-	-	-	-	444
Federal aid	-	-	2,124	-	-	2,124
State aid	-	13,798	-	-	-	13,798
Total revenue	3,514,282	3,355,023	117,675	490	29,112	7,016,582
Expenditures						
General government support	58,184	56,950	-	-	-	115,134
Home and community services	1,738,539	1,594,599	11,727	4,013	19,138	3,368,016
Employee benefits	421,199	415,642	-	-	-	836,841
Debt service - interest expense	32,302	193,431	-	-	-	225,733
Total expenditures	2,250,224	2,260,622	11,727	4,013	19,138	4,545,724
Excess (deficiency) of revenue over expenditures	1,264,058	1,094,401	105,948	(3,523)	9,974	2,470,858
Other financing sources (uses)						
BANs redeemed from appropriations	-	(190,810)	-	-	-	(190,810)
Operating transfers out	(930,931)	(61,066)	-	-	-	(991,997)
Total financing sources (uses)	(930,931)	(251,876)	-	-	-	(1,182,807)
Excess (deficiency) of revenue over expenditures and other financing uses	333,127	842,525	105,948	(3,523)	9,974	1,288,051
Fund equity, beginning of year	542,316	417,412	47,141	18,881	44,391	1,070,141
Fund equity, end of year	$ 875,443	$ 1,259,937	$ 153,089	$ 15,358	$ 54,365	$ 2,358,192

	May 31 2010	May 31 2009
Assets		
Cash on hand	$ 40	$ 40
Cash on deposit		
Regular accounts	1,846,899	788,001
Receivables		
Accounts receivable	1,682,952	1,410,465
Revolving loans receivable	363,849	450,743
First time homebuyers loans receivable	124,418	145,730
Rehabilitation loans receivable	8,137	8,461
Total assets	$ 4,026,295	$ 2,803,440
Liabilities		
Accounts payable	$ 125,273	$ 78,544
Accrued liabilities	66,425	47,851
Due to other funds	120,559	311,318
Advances from other funds	810,000	632,900
Other liabilities/due to retirement systems	49,445	57,754
Deferred revenues	496,401	604,932
Total liabilities	1,668,103	1,733,299
Fund Equity		
Reserve for encumbrances	172,348	60,196
Unreserved:		
Undesignated	2,185,844	1,009,945
Total fund equity	2,358,192	1,070,141
Total liabilities and fund equity	$ 4,026,295	$ 2,803,440

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - SPECIAL REVENUE FUNDS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 6,705,731	$ 6,058,173
Intergovernmental charges	291,441	277,171
Use of money and property	3,044	920
Sales of property and compensation for loss	444	12,313
Federal aid	2,124	742,022
State aid	13,798	-
Total revenue	7,016,582	7,090,599
Expenditures		
General government support	115,134	146,210
Home and community services	3,368,016	4,244,762
Employee benefits	836,841	789,654
Debt service - interest expense	225,733	104,224
Total expenditures	4,545,724	5,284,850
Excess of revenue over expenditures	2,470,858	1,805,749
Other financing sources (uses)		
BANs redeemed from appropriations	(190,810)	(100,000)
Operating transfers out	(991,997)	(1,046,316)
Total other financing sources (uses)	(1,182,807)	(1,146,316)
Excess of revenue and other financing sources over expenditures and other financing uses	1,288,051	659,433
Fund equity, beginning of year	1,070,141	410,708
Fund equity, end of year	$ 2,358,192	$ 1,070,141

COMPARATIVE BALANCE SHEETS
WATER FUND
AS OF MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Assets		
Cash on hand	$ 40	$ 40
Cash on deposit		
Regular accounts	940,218	475,738
Accounts receivable	858,403	745,625
Total assets	$ 1,798,661	$ 1,221,403
Liabilities		
Accounts payable	$ 67,487	$ 41,227
Accrued liabilities	38,915	25,956
Due to other funds	-	50,000
Advances from other funds	797,649	551,071
Other liabilities/due to retirement systems	19,167	10,833
Total liabilities	923,218	679,087
Fund Equity		
Reserve for encumbrances	41,400	57,541
Unreserved:		
Undesignated	834,043	484,775
Total fund equity	875,443	542,316
Total liabilities and fund equity	$ 1,798,661	$ 1,221,403

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - WATER FUND FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 3,513,838	$ 3,295,503
Sales of property and compensation for loss	444	12,313
Total revenue	3,514,282	3,307,816
Expenditures		
General government support	58,184	76,210
Home and community services	1,738,539	1,730,708
Employee benefits	421,199	402,018
Debt service - interest expense	32,302	5,041
Total expenditures	2,250,224	2,213,977
Excess of revenue over expenditures	1,264,058	1,093,839
Other financing sources (uses)		
Operating transfers out	(930,931)	(939,197)
Total other financing uses	(930,931)	(939,197)
Excess of revenue and other financing sources over expenditures and other financing uses	333,127	154,642
Fund equity, beginning of year	542,316	387,674
Fund equity, end of year	$ 875,443	$ 542,316

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - WATER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2010

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	$ 3,414,760	$ 3,414,760	$ 3,513,838	$ -	$ 99,078
Sales of property and compensation for loss	-	-	444	-	444
Total revenue	3,414,760	3,414,760	3,514,282	-	99,522
Expenditures					
General government support	186,200	186,200	58,184	-	128,016
Home and community services	1,899,450	1,956,991	1,738,539	41,400	177,052
Employee benefits	439,200	439,200	421,199	-	18,001
Debt service - interest expense	4,715	4,715	32,302		(27,587)
Total expenditures	2,529,565	2,587,106	2,250,224	41,400	295,482
Excess (deficiency) of revenue over expenditures	885,195	827,654	1,264,058	(41,400)	395,004
Other financing uses					
Operating transfers out	(866,361)	(866,361)	(930,931)	-	(64,570)
Total other financing uses	(866,361)	(866,361)	(930,931)	-	(64,570)
Excess (deficiency) of revenue over expenditures and other financing uses	$ 18,834	$ (38,707)	$ 333,127	$ (41,400)	$ 330,434

COMPARATIVE BALANCE SHEETS
SEWER FUND
AS OF MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Assets		
Cash	$ 671,094	$ 166,598
Accounts receivable	824,549	664,840
Total assets	$ 1,495,643	$ 831,438
Liabilities		
Accounts payable	$ 57,786	$ 37,317
Accrued liabilities	27,510	21,895
Advances from other funds	12,351	81,829
Due to other funds	120,559	261,318
Other liabilities/due to other governments	17,500	11,667
Total liabilities	235,706	414,026
Fund Equity		
Reserve for encumbrances	130,948	2,655
Unreserved:		
Undesignated	1,128,989	414,757
Total fund equity	1,259,937	417,412
Total liabilities and fund equity	$ 1,495,643	$ 831,438

See accompanying independent auditors' report on supplementary information.

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 3,049,784	$ 2,604,199
Intergovernmental charges	291,441	277,171
State aid	13,798	-
Total revenue	3,355,023	2,881,370
Expenditures		
General government support	56,950	70,000
Home and community services	1,594,599	1,626,264
Employee benefits	415,642	387,636
Debt service - interest expense	193,431	99,183
Total expenditures	2,260,622	2,183,083
Excess of revenue over expenditures	1,094,401	698,287
Other financing sources (uses)		
BANs redeemed from appropriations	(190,810)	(100,000)
Operating transfers out	(61,066)	(107,119)
Total other financing uses	(251,876)	(207,119)
Excess of revenue and other financing sources over expenditures and other financing uses	842,525	491,168
Fund equity (deficit), beginning of year	417,412	(73,756)
Fund equity, end of year	$ 1,259,937	$ 417,412

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	$ 2,977,457	$ 2,977,457	$ 3,049,784	$ -	$ 72,327
Intergovernmental charges	204,000	204,000	291,441	-	87,441
State aid	5,000	5,000	13,798	-	8,798
Total revenue	3,186,457	3,186,457	3,355,023	-	168,566
Expenditures					
General government support	210,000	210,000	56,950	-	153,050
Home and community services	1,954,600	1,957,255	1,594,599	130,948	231,708
Employee benefits	444,650	444,650	415,642	-	29,008
Debt service - interest expense	11,840	11,840	193,431	-	(181,591)
Total expenditures	2,621,090	2,623,745	2,260,622	130,948	232,175
Excess (deficiency) of revenue over expenditures	565,367	562,712	1,094,401	(130,948)	400,741
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(190,810)	-	(190,810)
Operating transfers out	(555,232)	(555,232)	(61,066)	-	494,166
Total other financing sources (uses)	(555,232)	(555,232)	(251,876)	-	303,356
Excess (deficiency) of revenue over expenditures and other financing uses	$ 10,135	$ 7,480	$ 842,525	$ (130,948)	$ 704,097

See accompanying independent auditors' report on supplementary information.

		May 31 2010		May 31 2009
Assets				
Cash on deposit				
Regular accounts	$	165,867	$	82,395
Rehabilitation loans receivable		363,849		450,743
Total assets	$	529,716	$	533,138
Liabilities				
Deferred revenues	$	363,849	$	450,743
Due to other agency		12,778		35,254
Total liabilities		376,627		485,997
Fund Equity				
Unreserved:				
Undesignated		153,089		47,141
Total fund equity		153,089		47,141
Total liabilities and fund equity	$	529,716	$	533,138

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - REVOLVING LOAN FUND FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 112,561	$ 131,266
Use of money and property	2,990	459
Federal aid	2,124	742,022
Total revenue	117,675	873,747
Expenditures		
Home and community services	11,727	847,661
Total expenditures	11,727	847,661
Excess (deficiency) of revenue over expenditures and other uses	105,948	26,086
Fund equity, beginning of year	47,141	21,055
Fund equity, end of year	$ 153,089	$ 47,141

COMPARATIVE BALANCE SHEETS
HOUSING REHABILITATION FUND
AS OF MAY 31, 2010 AND 2009

		May 31 2010		May 31 2009
Assets				
Cash on deposit				
Regular accounts	$	15,358	$	18,881
Rehabilitation loans receivable		8,137		8,461
Total assets	$	23,495	$	27,342
Liabilities				
Deferred revenues	$	8,137	$	8,461
Total liabilities		8,137		8,461
Fund Equity				
Unreserved:				
Undesignated		15,358		18,881
Total fund equity		15,358		18,881
Total liabilities and fund equity	$	23,495	$	27,342

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - HOUSING REHABILITATION FUND FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 475	$ -
Use of money and property	15	461
Total revenue	490	461
Expenditures		
Home and community services	4,013	1,836
Total expenditures	4,013	1,836
Deficiency of revenue over expenditures	(3,523)	(1,375)
Deficiency of revenue over expenditures and other uses	(3,523)	(1,375)
Fund equity, beginning of year	18,881	20,256
Fund equity, end of year	$ 15,358	$ 18,881

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
FIRST TIME HOMEBUYERS PROGRAM
AS OF MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Assets		
Cash on deposit		
Regular accounts	$ 54,362	$ 44,389
First time homebuyers loans receivable	124,418	145,730
Total assets	$ 178,780	$ 190,119
Liabilities		
Deferred revenue	$ 124,415	$ 145,728
Total liabilities	124,415	145,728
Fund Equity		
Unreserved:		
Undesignated	54,365	44,391
Total fund equity	54,365	44,391
Total liabilities and fund equity	$ 178,780	$ 190,119

See accompanying independent auditors' report on supplementary information.

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - FIRST TIME HOMEBUYERS PROGRAM FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Departmental income	$ 29,073	$ 27,205
Use of money and property	39	-
Total revenue	29,112	27,205
Expenditures		
Home and community services	19,138	38,293
Total expenditures	19,138	38,293
Excess (deficiency) of revenue over expenditures	9,974	(11,088)
Other financing uses		
Bad debt expense	-	-
Total other financing uses	-	-
Excess (deficiency) of revenue over expenditures and other uses	9,974	(11,088)
Fund equity, beginning of year	44,391	55,479
Fund equity, end of year	$ 54,365	$ 44,391

COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
AS OF MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Assets		
Cash on deposit		
Regular accounts	$ 4,500,668	$ 8,021,387
Due from Federal and State	536,612	654,290
Due from other funds	508,156	648,959
Total assets	$ 5,545,436	$ 9,324,636
Liabilities		
Accounts payable	$ 651,142	$ 1,341,670
Accrued liabilities/due to other governments	100,000	100,000
Bond anticipation notes payable	13,218,917	12,178,917
Total liabilities	13,970,059	13,620,587
Fund Equity		
Unreserved:		
Undesignated (deficit)	(8,424,623)	(4,295,951)
Total fund equity (deficit)	(8,424,623)	(4,295,951)
Total liabilities and fund equity	$ 5,545,436	$ 9,324,636

	May 31 2010	May 31 2009
Revenue		
Use of money and property	$ 13,727	$ 13,709
Miscellaneous local sources	126,219	76,915
Federal aid	585,702	1,213,294
State aid	441,413	339,663
Total revenue	1,167,061	1,643,581
Expenditures		
General government support	4,371,821	1,617,824
Public safety	13,215	264,800
Transportation	617,561	1,322,193
Home and community services	3,560,741	1,918,344
Total expenditures	8,563,338	5,123,161
Excess (deficiency) of revenue over expenditures	(7,396,277)	(3,479,580)
Other financing sources (uses)		
Bond anticipation notes redeemed from appropriations	215,810	100,000
Proceeds from issuance of serial bonds, net of bond issuance fees	1,244,190	-
Proceeds from capital leases	1,458,209	-
Operating transfers in	449,795	456,300
Operating transfers out	(100,399)	-
Total other financing sources	3,267,605	556,300
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(4,128,672)	(2,923,280)
Fund equity (deficit), beginning of year	(4,295,951)	(1,372,671)
Fund equity (deficit), end of year	$ (8,424,623)	$ (4,295,951)

CITY OF OLEAN, NEW YORK
BALANCE SHEET - CAPITAL PROJECTS FUND - BY PROJECT
AS OF MAY 31, 2010

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	$ 161,588	$ -	$ 105,621	$ 267,209	$ -	$ -	$ 267,209	$ 267,209
87	Landfill - Olean Airport	56,980	-	312	57,292	-	-	57,292	57,292
101	ALARM	23,032	-	2,490	25,522	-	-	25,522	25,522
102	Vehicle replacement	135,774	-	150,000	285,774	-	-	285,774	285,774
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	66,785	-	24,657	91,442	-	-	91,442	91,442
119	OATS Bus Reserve	22,651	-	572	23,223	-	-	23,223	23,223
120	Water filtration plant	-	-	-	-	-	249,229	(249,229)	-
121	East State bridge	(22,496)	1,279	-	(21,217)	6,200	-	(27,417)	(21,217)
123	Catch basin disconnect project	313,294	-	34,749	348,043	100,000	635,000	(386,957)	348,043
125	Main Street Bridge	38,941	-	-	38,941	-	-	38,941	38,941
127	Odor Control/air make-up units	(3,684)	-	85,810	82,126	-	-	82,126	82,126
130	Airport runway rehab. & lights	-	-	-	-	-	11,772	(11,772)	-
132	Parking lot maintenance program	338	-	(1,936)	(1,598)	-	-	(1,598)	(1,598)
133	Parking lots repaving & rehab	67,459	-	-	67,459	-	-	67,459	67,459
137	Telephone System	4,000	-	-	4,000	-	-	4,000	4,000
139	Airport Building Renovations	11,296	2,109	-	13,405	-	-	13,405	13,405
141	Aircraft Parking Apron	(11,083)	-	5,881	(5,202)	-	-	(5,202)	(5,202)
142	Roof Construction	26,968	-	-	26,968	-	275,000	(248,032)	26,968
143	Energy Audit	855,430	-	-	855,430	152,335	4,545,000	(3,841,905)	855,430
144	East Olean Sewer	2,086,424	514,645	-	2,601,069	427,456	2,500,000	(326,387)	2,601,069
145	Two Mile Sewer	671,779	-	-	671,779	58,307	5,000,000	(4,386,528)	671,779
146	Airport Master Plan	(16,231)	18,579	-	2,348	6,844	-	(4,496)	2,348
147	Safe Schools Route	(11,119)	-	100,000	88,881	-	-	88,881	88,881
	Totals	$ 4,500,668	$ 536,612	$ 508,156	$ 5,545,436	$ 751,142	$ 13,218,917	$ (8,424,623)	$ 5,545,436

See accompanying independent auditors' report on supplementary information.

SCHEDULE OF EXPENDITURES-
CAPITAL PROJECTS FUND - BY PROJECT
FOR THE FISCAL YEAR ENDED MAY 31, 2010

Project	Amount
CHIPS	$ 506,772
City Alarm	2,096
Vehicle Replacement	625,258
OATS Bus Reserve	572
East State Bridge	44,499
Catch basin disconnect project	146,644
Odor Control/Air Make-up Units	3,684
Parking Lot Maintenance	35,888
Airport Building Renovations	200
Roof Construction	46,552
Energy Audit	3,700,011
East Olean Sewer	798,199
Two Mile Sewer	2,612,214
Airport Master Plan	29,630
Safe Routes to Schools	11,119
	$ 8,563,338

	May 31 2010	May 31 2009
Assets		
Cash on deposit		
Restricted regular accounts	$ 528,969	$ 528,060
Total assets	$ 528,969	$ 528,060
Liabilities		
Due to other funds	$ -	$ -
Total liabilities	-	-
Fund Equity		
Reserved for debt	528,969	528,060
Unreserved:		
Designated for subsequent year's expenditures	-	-
Total fund equity	528,969	528,060
Total liabilities and fund equity	$ 528,969	$ 528,060

COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - DEBT SERVICE FUND FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009

	May 31 2010	May 31 2009
Revenue		
Use of money and property	$ 858	$ 6,208
Sale of property & compensation for loss	-	41,941
Total revenue	858	48,149
Expenditures		
General government support	11,741	12,236
Debt service:		
Principal	1,124,673	1,080,000
Interest	520,461	525,031
Total expenditures	1,656,875	1,617,267
Excess (deficiency) of revenue over expenditures	(1,656,017)	(1,569,118)
Other financing sources		
Operating transfers in	1,656,926	1,562,267
Total other financing sources	1,656,926	1,562,267
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	909	(6,851)
Fund equity, beginning of year	528,060	534,911
Fund equity, end of year	$ 528,969	$ 528,060

See accompanying independent auditors' report on supplementary information.

COMPARATIVE BALANCE SHEETS
AGENCY FUND
AS OF MAY 31, 2010 AND 2009

		May 31 2010		May 31 2009
Assets				
Cash on deposit				
Regular accounts	$	109,929	$	114,220
Restricted accounts		109,846		100,763
Due from other funds		2,716		2,716
Total assets	$	222,491	$	217,699
Liabilities				
Due to other funds	$	9,513	$	8,273
Other liabilities		212,978		209,426
Total liabilities	$	222,491	$	217,699

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND BALANCES - AGENCY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2010

	Balance June 1, 2009	Receipts	Disbursements	Balance May 31, 2010
NYS Retirement	$ -	$ 575	$ 575	$ -
Hospitalization	1,643	401,330	398,561	4,412
US Savings Bonds	50	4,000	4,050	-
Charity - United Way	14	20	23	11
Guarantee & Bid Bonds	500	-	-	500
Guarantee & Bid deposits	4,533	5	1,250	3,288
Covet Tree Service	-	2,654	-	2,654
Building Improvement Fund-HDCP	459	-	-	459
Children's Memorial Flower Grdn	358	-	-	358
Stadium Renovations / Donations	5,842	-	300	5,542
Y&R St. John's	6,019	-	65	5,954
Mayor's Cup Golf Tournament	5,429	5,616	6,251	4,794
Concession Stand	12,171		3,305	8,866
Bike Auction	2,792	2,123	-	4,915
Miscellaneous Recreation	7,948	13,915	13,180	8,683
Clerk Sales	771	480	174	1,077
Civil Service Exam Fees	1,766	-	1,766	-
Bartlett House Donations	10,103	2,645	111	12,637
Juvenile Police Donations	22	-	22	-
Police ERT	96	-	96	-
Police Drugs Donations	11,083	14,996	8,910	17,169
Police Federal Drug Proceeds	10,996	9	6,595	4,410
Youth Programs Donations	57	-	-	57
DARE	13,240	-	4,949	8,291
Community Policing	296	-	296	-
Youth Court Donations	10,555	-	297	10,258
Kids ID Kits	184	-	184	-
Tree Program	1,987	584	1,936	635
Interest & Service Charges	2,165	160	2,000	325
Personnel	3	2,217	722	1,498
Fire Equipment Donations	3,139	-	-	3,139
Flexible Spending Account	(8,273)	-	-	(8,273)
Medical Savings Account	98,261	114,578	102,854	109,985
Payroll Account	4,383	9,739,833	9,743,829	387
Special Account	836	17,956	17,843	949
Totals	$ 209,426	$ 10,323,696	$ 10,320,144	$ 212,978

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL)	Unfunded Actuarial Accrued Liability ("UAAL)	Funded Ratio	Budgeted Covered Payroll	Ratio of UAAL to Budgeted Covered Payroll
January 1, 2008	$ -	$ 1,340,000	$ 1,340,000	$ -	$ -	N/A

Federal Program Title	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Receivable (Deferred Revenue) 5/31/2009	Total Received	Revenue	Expenditures	Receivable (Deferred Revenue) 5/31/2010
Appalachian Regional Grant Commission								
Appalachian Regional Commission Grant	23.001	NY15358-06	150,000	-	-	114,645	114,645	114,645
United States Department of Housing and Urban Development								
Community Development Block Grant	14.228	841ER112-06	400,000	-	-	400,000	400,000	400,000
Community Development Block Grant	14.228	841ED638-08	750,000	-	2,124	2,124	2,124	-
Subtotal U.S. Department of HUD			1,150,000	-	2,124	402,124	402,124	400,000
United States Department of Transportation								
Airport Aviation Research Grant	20.108	FAA AIP No. 3-36-0091-12-08 NYS DOT PIN 5904.41	113,684	10,680	21,363	28,148	28,148	17,465
Federal Aid & Marchiselli Aid Project	20.205	NYSDOT/D013563 PIN 5056.17	1,285,600	349,433	368,998	19,565	19,565	-
Section 5311 Transportation Grant	20.509		79,100	-	79,100	79,100	79,100	-
Subtotal U.S. Department of Transportation			1,478,384	360,113	469,461	126,813	126,813	17,465
United States Department of Homeland Security								
FEMA - Disaster Grants - Public Assistance	97.036	OLEC02 C MLH S	23,343	-	23,343	23,343	23,343	-
Subtotal U.S. Department of Homeland Security			23,343	-	23,343	23,343	23,343	-
Total			$ 2,801,727	$ 360,113	$ 494,928	$ 666,925	$ 666,925	$ 532,110

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.

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BUFFAMANTE WHIPPLE BUTTAFARO, P.C.
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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, 2010, which collectively comprise the ***City of Olean, New York's*** basic financial statements and have issued our report thereon dated November 19, 2010. 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 and therefore there can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed below, we identified two deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting as described as items II.A.2010-1 and II.A.2010-2.

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 November 19, 2010.

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Olean, New York
November 19, 2010

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BUFFAMANTE WHIPPLE BUTTAFARO, P.C.
Certified Public Accountants ▲ Business Advisors

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 could have a direct and material effect on each of its major federal programs for the year ended May 31, 2010. 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 auditing standards generally accepted in the United States of America; 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, 2010.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal award program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item III.2010-3 to be a material weakness.

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

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated November 19, 2010.

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Olean, New York
November 19, 2010

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***.

2. There were two 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.2010-1 and II.A.2010-2 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 was one deficiency 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. Item III.B.2010-3 is reported as a material weakness.

5. The auditors' report on compliance for the major federal awards programs of the ***City of Olean, New York*** expresses an unqualified opinion.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

7. Major programs tested:

	Type	CFDA #	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant	(Type A)	14.228	$ 402,124
Appalachian Regional Commission			
Appalachian Regional Commission Grant	(Type B)	23.001	114,645
			$ 516,769
Total Federal Awards			$ 666,925
Percentage of total programs tested			77%

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

2010-1 Public Works Grants

Year ended May 31, 2010

***Condition and criteria*:** During the audit, we noticed that a reimbursement from the Federal government in the amount of approximately $515,000 related to the Pump Station Project had not been received by the City in a timely manner. The timing of the reimbursement was delayed due to the timing of the filing of the City's claims for reimbursement and the amount owed to the City was not followed up on until this situation was noticed during the audit.

***Effect*:** By not instituting a strong internal control system over the monitoring of grant receipts, the City could jeopardize certain grant funding and therefore absorb such costs locally.

***Auditors' Recommendations*:** The City should develop an internal system with regard to its public works and community development projects that are funded through Federal and State grants, whereby, schedules that outline expenditures incurred to-date and submissions of reports for reimbursement are routinely provided to the City Auditor's office for review. Cash received from the Federal and State government should then be closely monitored and compared with these schedules, with follow-ups performed on any discrepancies.

***City's Response*:** The City understands the importance of tracking the submission of reimbursement reports for Federal and State grants with the amounts received and will develop a system so that such information is provided to the City Auditor for monitoring.

Year ended May 31, 2009

Similar finding was reported upon during the year ended May 31, 2009

2010-2 Segregation of Duties – Bank Reconciliations

Year Ended May 31, 2010

Condition and Criteria: During the audit, we noted 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 the reconciliation of cash is vital to its operations, the lack of proper segregation of duties in this area heightens the City's risk of potential errors and/or fraud.

Auditors' Recommendations: 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*:** 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. The City will consider the auditor recommendation.

Year ended May 31, 2009

Similar finding was reported upon during the year ended May 31, 2009

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (Continued)

B. Compliance

Year ended May 31, 2010

No compliance findings are being reported upon during the fiscal year ended May 31, 2010.

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

A. Compliance

Year ended May 31, 2010

No compliance findings are being reported upon during the fiscal year ended May 31, 2010.

B. Internal Control over Compliance

Year ended May 31, 2010

U.S. Department of Housing and Urban Development Community Development Block Grant (CFDA #14.228) and Appalachian Regional Commission Grant (CFDA # 23.001)

2010-3 Public Works Grants

Same finding as that reported as II.A.2010-1 above.

Year ended May 31, 2009

Similar finding was reported upon during the year ended May 31, 2009

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BUFFAMANTE WHIPPLE BUTTAFARO, P.C.
Certified Public Accountants ▲ Business Advisors

November 19, 2010

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

Ladies and Gentlemen:

We have completed our 2009-10 audit of the City's financial statements and have issued our reports thereon dated November 19, 2010. 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, 2010, 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.

Budgeting and Forecasting

General Fund

In prior years' management letters, we discussed the ***City of Olean, New York's*** operating and accumulated deficits that existed in the General, Water and Sewer funds. The City has addressed these deficits and as of May 31, 2010 have built modest fund balances in the respective funds.

With expected increases in retirement contribution rates, health insurance rates and other applicable expenditures, along with the potential for a decline in certain revenue, such as AIM aid and sales tax revenue, we recommend the ***City of Olean, New York's*** management continue to closely review and monitor its financial position. We suggest that a three to five year forecast be prepared which is followed by a strategic plan to balance general, water and sewer fund operations. If possible, the City should build into the plan funding necessary to continue to build or accumulate fund equity to protect the funds from any future uncertainties.

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.

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.

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.

Payroll

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

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.

First Time Homebuyers/Revolving Loan Programs Deposits/ Trust and Agency Receipts

During our review of First Time Homebuyer's, Revolving Loan, and Trust and Agency cash receipts, we noted that the there not a formal process in place for documenting the timing of cash receipts. In prior years, we also noted that receipts were not always being deposited into the bank in a timely basis; rather such funds are being locked in a locked safe at the City. This process has improved in recent years, however due to the lack of documenting the timing of the receipts, determining the timeliness of the deposits could not be specifically verified. We recommend that the cash receipts for these funds be deposited on a more regular basis throughout the year and the City develop a process for identifying the date or timing of these receipts.

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.

Disbursements

We noted in our disbursement testing that invoices received by the Trust and Agency fund were not present in all instances. Further, in many cases we noted no indication that the invoice received was reviewed for clerical accuracy. We recommend the City obtain invoices and attach all invoices to their respective voucher packet. Additionally, we recommend that all vouchers be signed and reviewed by the City Auditor.

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.

Equipment

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

Maintenance and Transportation Supplies

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

Fixed Assets

Capitalization Thresholds

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

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.

Consulting and Lease Agreements

During our testing we noted that the City incurred expenditures related to consulting services provided by former City employees, however, formal agreements or contracts were not entered into. We recommend that consulting agreements or contracts which stipulate the scope of services and associate cost are drafted and signed prior to such services being provided.

Sewer Fund Rates

During our audit we noticed an immaterial error in the City's industrial sewer billing process. During the recent fiscal year, the billing variables changed due to the installation of new meters across the City. The calculation error resulted in the City over-billing a limited number of industrial entities. The error was identified and credits were issued to these entities. We recommend that the City closely monitor its billing rates on a monthly basis to avoid such future errors.

Credit Limits on Purchase Cards

During our audit process we noted that various City employees are issued purchase cards for general use. The purchases made with such cards are to adhere to the City's purchasing policies. The credit limits on these cards vary by department and cardholder. We recommend that the City review the reasonableness of the credit limits based on volume of usage and departmental need.

STATISTICAL SECTION

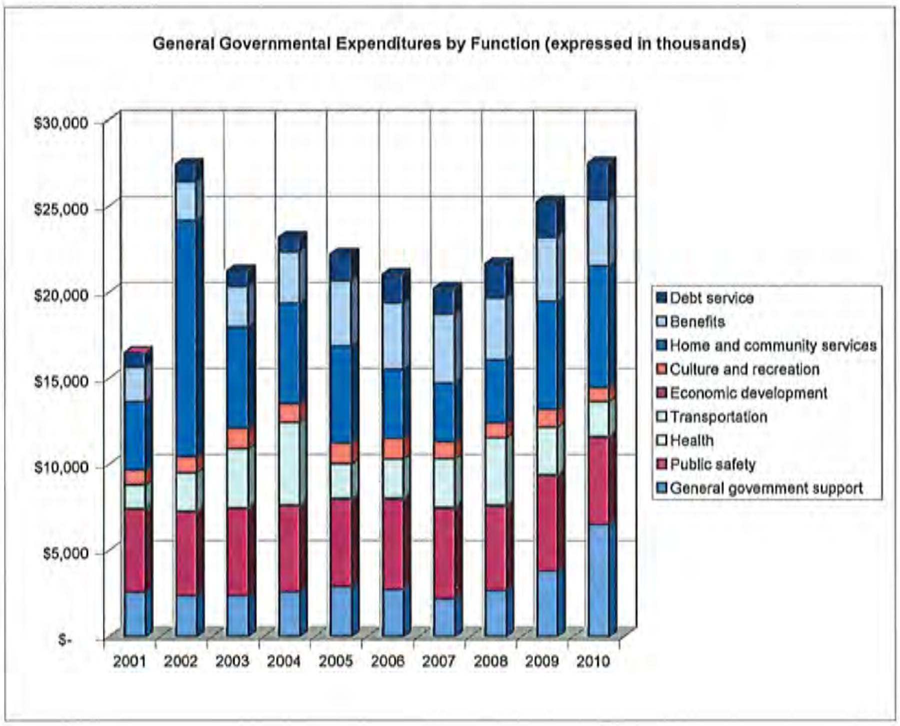
City of Olean
General Governmental Expenditures by Function
Governmental Funds

Last Ten Fiscal Years
(amounts expressed in thousands)

Function

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government support	$ 2,566	$ 2,369	$ 2,370	$ 2,588	$ 2,885	$ 2,716	$ 2,173	$ 2,648	$ 3,799	$ 6,504
Public safety	4,805	4,845	5,030	4,968	5,063	5,239	5,244	4,890	5,534	5,036
Health	53	54	68	61	72	82	84	85	74	86
Transportation	1,367	2,218	3,411	4,809	1,981	2,267	2,810	3,902	2,731	2,002
Economic development	26	26	26	26	26	15	15	15	15	15
Culture and recreation	859	921	1,187	1,050	1,193	1,157	981	857	1,027	817
Home and community services	3,955	13,723	5,892	5,860	5,637	4,037	3,411	3,661	6,285	7,065
Benefits	2,009	2,242	2,343	2,956	3,808	3,860	3,991	3,592	3,715	3,828
Debt service	846	1,025	904	874	1,530	1,660	1,512	1,997	2,065	2,151
Total	$ 16,486	$ 27,423	$21,231	$ 23,192	$ 22,195	$ 21,033	$ 20,221	$ 21,647	$ 25,245	$ 27,504

Source: City of Olean Annual Report (2001-2010)



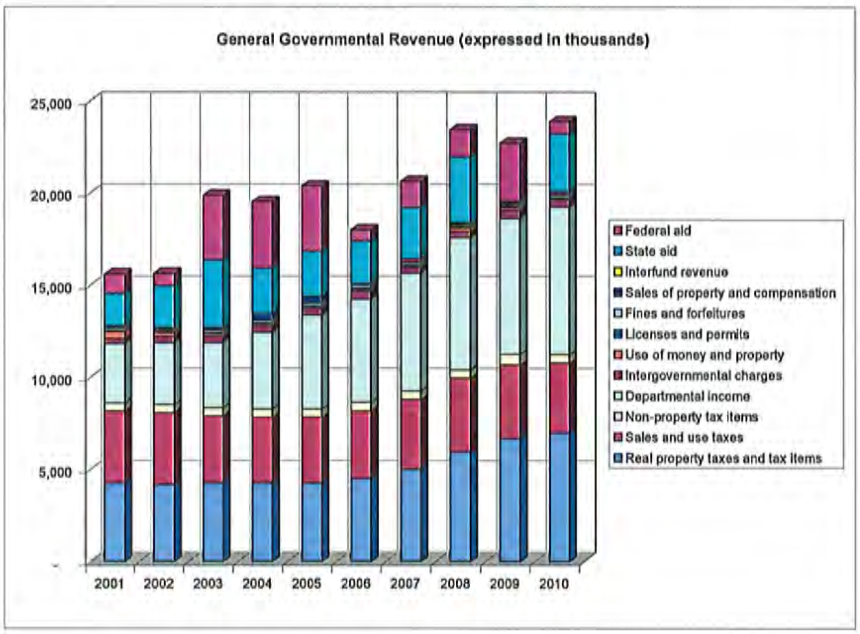
City of Olean
General Governmental Revenues by Source
Governmental Funds

Last Ten Fiscal Years
(amounts expressed in thousands)

Source

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real property taxes and tax items	$ 4,263	$ 4,179	$ 4,254	$ 4,262	$ 4,262	$ 4,518	$ 5,013	$ 5,954	$ 6,679	$ 6,953
Sales and use taxes	3,896	3,884	3,642	3,550	3,569	3,642	3,784	4,009	3,995	3,822
Non-property tax items	441	451	459	474	455	468	454	452	572	450
Departmental income	3,233	3,350	3,531	4,152	5,082	5,599	6,409	7,169	7,374	8,023
Intergovernmental charges	292	352	337	366	359	464	327	339	457	416
Use of money and property	355	202	128	103	104	95	70	189	127	44
Licenses and permits	70	85	64	59	59	64	54	52	78	38
Fines and forfeitures	116	103	130	142	142	150	110	108	96	131
Sales of property and compensation	101	41	124	355	347	21	37	33	92	83
Miscellaneous local sources	29	50	43	-	-	55	175	89	77	126
Interfund revenue	-	-	-	-	-	-	-	-	-	
Bad debt expense	-	-	-	-	-	59	-	-	-	
State aid	1,750	2,270	3,640	2,463	2,460	2,324	2,774	3,575	3,170	3,130
Federal aid	1,066	679	3,530	3,611	3,551	606	1,426	1,481	1,955	667
	$15,612	$15,646	$19,882	$19,537	$20,390	$18,065	$20,633	$23,450	$24,672	$23,883

Source: City of Olean Annual Report (2001-2010)

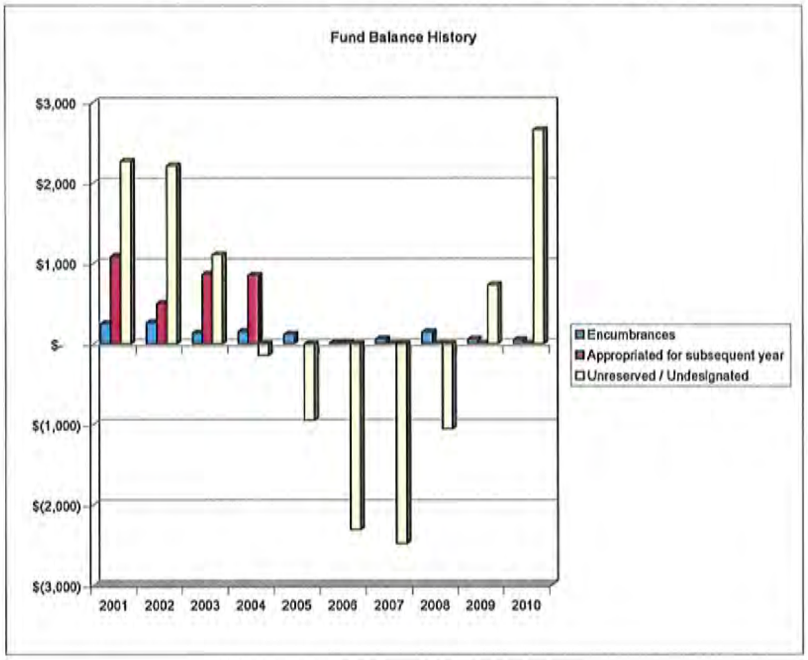


City of Olean
Fund Balance History
General Fund

Last Ten Fiscal Years
(amounts expressed in thousands)

Source

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Encumbrances	$ 253	$ 264	$ 134	$ 154	$ 116	$ 14	$ 59	$ 148	$ 55	$ 49
Appropriated for subsequent year	1,087	500	864	850		15	-	-	-	-
Unreserved / Undesignated	2,270	2,215	1,107	(141)	(949)	(2,309)	(2,480)	(1,058)	732	2,658
Total	$ 3,610	$ 2,979	$ 2,105	$ 863	$ (833)	$ (2,280)	$ (2,421)	$ (910)	$ 787	$ 2,707



Source: City of Olean Annual Report (2001-2010)

City of Olean

Assessed and Equalized Full Value of Taxable Property (1)

Last Ten Fiscal Years
(amounts expressed in thousands)

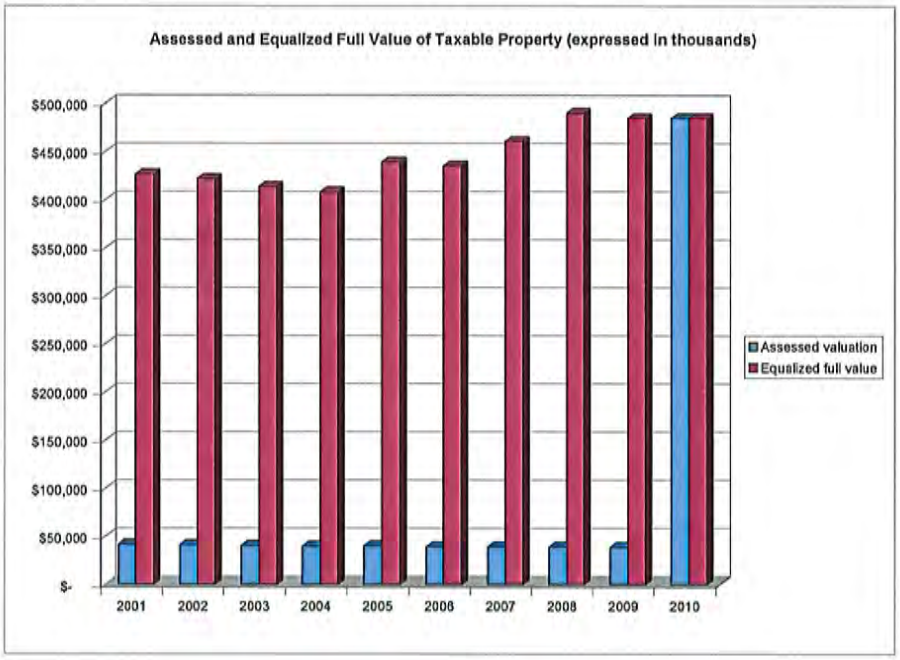
Source

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assessed valuation	$ 41,557	$ 41,107	$ 40,319	$ 39,782	$ 40,052	$ 39,154	$ 39,141	$ 39,178	$ 38,725	$ 484,646
Equalized full value	426,226	421,610	413,528	408,021	438,686	435,044	460,482	489,725	484,520	484,646
Ratio: Assessed value to equalized full value	9.75%	9.75%	9.75%	9.75%	9.13%	9.00%	8.50%	8.00%	7.99%	100.00%

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 (2001-2010)



City of Olean

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

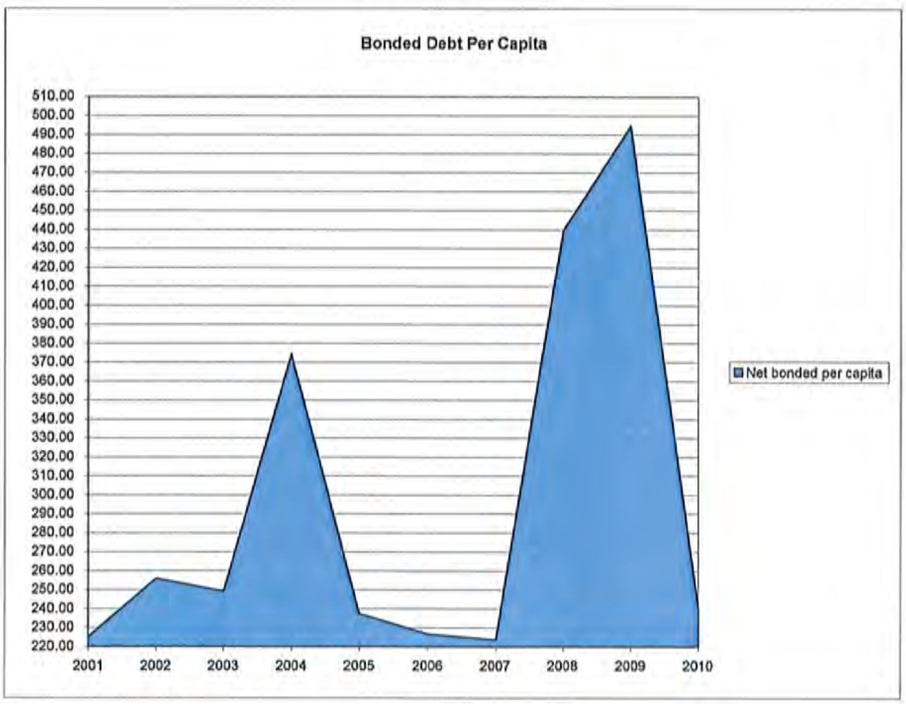
Last Ten Fiscal Years

Source

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net bonded per capita	225.52	256.14	249.50	374.54	237.57	226.75	223.95	439.70	494.82	240.76
Population	16,801	15,347	15,347	15,347	15,347	15,347	15,347	15,347	15,347	15,347
Assessed value (000)	41,557	41,107	40,319	39,782	40,052	39,154	39,141	39,178	38,725	48,465
Gross bonded debt (000)	5,131	15,427	15,523	19,022	20,278	20,565	23,022	26,110	32,786	30,584
Less: self-supporting debt (000)	1,342	11,496	11,694	13,274	16,632	17,085	19,585	19,362	25,192	26,889
Net bonded debt (000)	3,789	3,931	3,829	5,748	3,646	3,480	3,437	6,748	7,594	3,695
Ratio of net bonded debt to assessed value	9.12%	9.56%	9.50%	14.45%	9.10%	8.89%	8.78%	17.22%	19.61%	7.62%

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 2001-2010



Ratio of General Obligation Debt Service to Total General Expenditures

Last Ten Fiscal Years

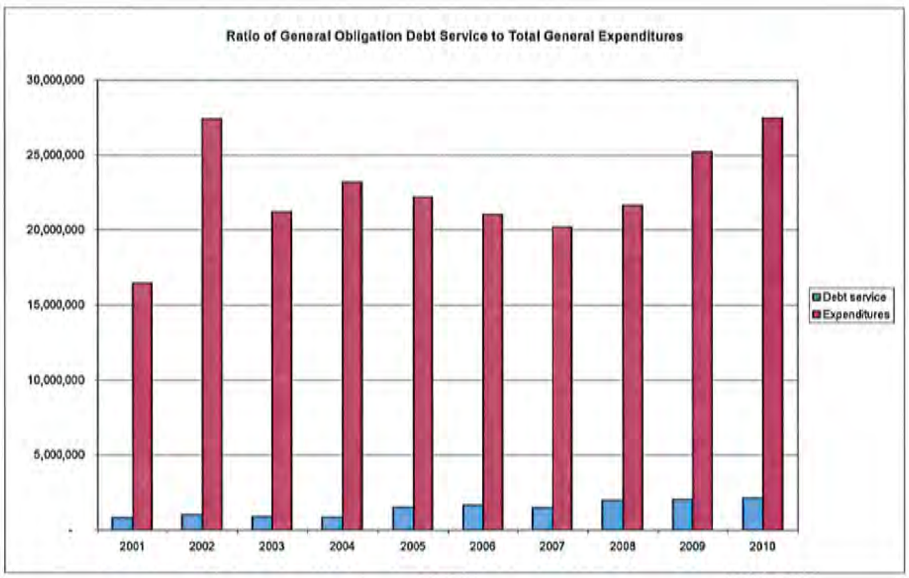
Source

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt service	846,000	1,025,000	904,000	874,000	1,530,000	1,660,000	1,512,000	1,997,000	2,065,000	2,151,000
Expenditures	16,486,000	27,423,000	21,231,000	23,192,000	22,195,000	21,033,000	20,221,000	21,647,000	25,245,000	27,504,000
Ratio of general debt service to total general expenditures	5.13%	3.74%	4.26%	3.77%	6.89%	7.89%	7.48%	9.23%	8.18%	7.82%

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

Taxpayer	Type of Business	Estimated Equalized Full Value	Percentage of Equalized Full Value
National Grid	Public Utility	$ 13,875,202	2.86%
Park Centre Development	Real Estate	11,052,900	2.28%
NYS Electric & Gas	Public Utility	10,207,305	2.11%
Cutco Cutlery Corp. & Alcas	Manufacturing	8,438,400	1.74%
2501 West State Street	Grocery Store	6,950,000	1.43%
Dresser-Rand Industries	Manufacturing	5,506,400	1.14%
Troy CMBS Prop.	Large Retail	4,300,000	0.89%
Olean Medical Properties	Health Care	4,276,800	0.88%
Eden Heights of Olean	Retirement Facility	4,225,000	0.87%
ZRAJ Olean, LLC	Shopping Mall	4,924,275	1.02%
Total		$ 73,756,282	15.22%

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.