

CITY OF JAMESTOWN, NEW YORK
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Independent Report of Auditor

To the City Council
City of Jamestown, New York

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Jamestown, New York as of and for the year ended December 31, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Jamestown, New York's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Board of Public Utilities which is included in the Business-type activities section of the Government-wide financial statements. Those financial statements were audited by other auditors whose reports thereon were furnished to me, and my opinion, insofar as it relates to the amounts included for the Board of Public Utilities, is based solely on the reports of the other auditors.

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

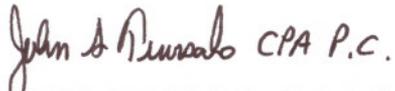
In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Jamestown, New York as of December 31, 2006 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 14, 2007, on my consideration of the City of Jamestown, New York's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member of American Institute, New York State Society, Pennsylvania Institute of Certified Public Accountants.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Jamestown, New York's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Jamestown, New York. The combining fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 CPA P.C.

JOHN S. TRUSSALO, CPA, P.C.

September 14, 2007

CITY OF JAMESTOWN, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2006

This discussion and analysis of the City of Jamestown, New York's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The net assets of the City's governmental activities included in the Government-wide financial statements increased \$1,471,711 (8%) to \$20,966,992. Revenues from governmental activities totaled \$32,922,581 for 2006 compared to \$30,945,485 for 2005. Expenditures for governmental activities totaled \$31,450,870 for 2006 compared to \$30,395,221 for 2005.
- The fund balance of the City's General Fund included in the Fund financial statements increased \$458,392 (27%) to \$2,127,493 as of December 31, 2006 compared to a fund balance of \$1,669,101 as of December 31, 2005.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Jamestown, New York (City) using the integrated approach as prescribed by GASB No. 34.

The Government-wide financial statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

The Fund financial statements include statements for each of the three categories of activities - governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the Fund financial statements to the Government-wide financial statements are provided to explain the differences created by the integrated approach.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the City as a whole and about its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets are the differences between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's roads.

In the Statement of Net Assets and the Statement of Activities and Changes in Net Assets, we separate the activities of the City as follows:

Governmental activities

Most of the City's basic services are reported in this category, including General Government, Fire, Police, Public Works, Parks, Recreation and Community Services. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities

The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's Electric, Water, Wastewater, Sanitation, and District Heat activities are reported in this category.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State Statute, while other funds are established by the City to help manage money for particular purposes and compliance with various grant provisions.

Governmental Funds

Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The differences of results in the Governmental fund financial statements to those in the Government-wide financial statements are explained in a reconciliation schedule following each Governmental fund financial statement.

Proprietary Funds

When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary Funds

The City is the trustee, or fiduciary for certain funds held on behalf of the Recreation Department Trust. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including budgetary comparison schedules for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net assets for the City of Jamestown, New York, as a whole, totaled \$118,191,821 as of December 31, 2006 and \$112,473,415 as of December 31, 2005, an increase of \$5,718,406. The increase of \$5,718,406 resulted from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. Program expenses by function, general revenues by major source, excess and/or deficiency of revenues over expenses and total assets are presented in the Statement of Activities and Changes in Net Assets..

The City's combined Net Assets for the years ended December 31, 2006 and 2005 were as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$12,933,197	\$13,166,991	\$ 18,578,903	\$ 16,161,964	\$ 31,512,100	\$ 29,328,955
Capital assets	<u>30,732,180</u>	<u>27,869,707</u>	<u>129,606,337</u>	<u>130,994,736</u>	<u>160,338,517</u>	<u>158,864,443</u>
Total assets	<u>\$43,665,377</u>	<u>\$41,036,698</u>	<u>\$148,185,240</u>	<u>\$147,156,700</u>	<u>\$191,850,617</u>	<u>\$188,193,398</u>
<u>Liabilities</u>						
Long-term debt	\$19,210,403	\$17,701,121	37,769,500	39,789,000	56,979,903	57,490,121
Other liabilities	<u>3,487,982</u>	<u>3,840,296</u>	<u>13,190,911</u>	<u>14,389,566</u>	<u>16,678,893</u>	<u>18,229,862</u>
Total liabilities	<u>22,698,385</u>	<u>21,541,417</u>	<u>50,960,411</u>	<u>54,178,566</u>	<u>73,658,796</u>	<u>75,719,983</u>
<u>Net Assets</u>						
Investment in capital assets, net of related debt	14,935,093	13,832,209	91,728,656	91,205,736	106,663,749	105,037,945
Restricted	7,109,394	7,161,039	-	-	7,109,394	7,161,039
Unrestricted	<u>(1,077,495)</u>	<u>(1,497,967)</u>	<u>5,496,173</u>	<u>1,772,398</u>	<u>4,418,678</u>	<u>274,431</u>
Total net assets	<u>20,966,992</u>	<u>19,495,281</u>	<u>97,224,829</u>	<u>92,978,134</u>	<u>118,191,821</u>	<u>112,473,415</u>
Total Liabilities and Net Assets	<u>\$43,665,377</u>	<u>\$41,036,698</u>	<u>\$148,185,240</u>	<u>\$147,156,700</u>	<u>\$191,850,617</u>	<u>\$188,193,398</u>

Net Asset Analysis - Overall

Net assets totaled \$118,191,821 as of December 31, 2006 of which \$106,663,749 (90%) represents the City's investment in capital assets net of related debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Asset Analysis - Governmental Activities

The City's net assets from governmental activities increased \$1,471,711 (8%) to \$20,966,992. Invested in capital assets net of related debt increased \$1,102,884 (8%) to \$14,935,093. Restricted net assets decreased \$51,645 (1%) to \$7,161,039. Unrestricted net assets increased \$420,472 (28%) to a deficit of \$1,077,495.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Net Asset Analysis - Business-type Activities

The City's net assets from business-type activities increased \$4,246,695 (5%) to \$97,224,829. Investment in capital assets, net of related debt increased \$522,920 (1%) to \$91,728,656. Unrestricted net assets increased \$3,723,775 (213%) to \$5,496,173.

Analysis of Changes in Net Assets

The change in the City's net assets for governmental activities and business-type activities for the years ended December 31, 2006 and 2005 is summarized below:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,032,748	\$ 1,938,445	\$49,299,586	\$45,570,663	\$ 51,332,334	\$ 47,509,108
Operating grant/contributions	3,027,868	2,903,652	-	-	3,027,868	2,903,652
Capital grants/contributions	873,578	773,540	-	-	873,578	773,540
General revenues:						
Real property taxes	12,268,124	11,592,805	-	-	12,268,124	11,592,805
Sales tax	5,111,811	5,124,484	-	-	5,111,811	5,124,484
Board of Public Utilities (PILOT)	3,412,408	3,275,153	-	-	3,412,408	3,275,153
Investment earnings	613,458	548,543	238,034	129,820	851,492	678,363
State Aid	4,550,888	3,733,560	-	-	4,550,888	3,733,560
Other	<u>1,031,698</u>	<u>1,055,303</u>	-	<u>71</u>	<u>1,031,698</u>	<u>1,055,374</u>
Total revenues	<u>32,922,581</u>	<u>30,945,485</u>	<u>49,537,620</u>	<u>45,700,554</u>	<u>82,460,201</u>	<u>76,646,039</u>
Expenses:						
General government support	4,504,441	4,476,329	-	-	4,504,441	4,476,329
Public safety	9,997,203	9,685,689	-	-	9,997,203	9,685,689
Public improvements/projects	229,385	446,302	-	-	229,385	446,302
Streets	2,424,473	1,847,664	-	-	2,424,473	1,847,664
Culture and recreation	1,882,967	1,891,622	-	-	1,882,967	1,891,622
Home and community service	3,644,005	3,865,556	-	-	3,644,005	3,865,556
Employee benefits	7,929,602	7,410,445	-	-	7,929,602	7,410,445
Debt service	838,794	771,614	1,752,078	1,909,592	2,590,872	2,681,206
Utility operations	-	-	<u>43,538,847</u>	<u>45,145,507</u>	<u>43,538,847</u>	<u>45,145,507</u>
Total expenses	<u>31,450,870</u>	<u>30,395,221</u>	<u>45,290,925</u>	<u>47,055,099</u>	<u>76,741,795</u>	<u>77,450,320</u>
Change in net assets	1,471,711	550,264	4,246,695	(1,354,545)	5,718,406	(804,281)
Net assets, beginning of year	<u>19,495,281</u>	<u>18,945,017</u>	<u>92,978,134</u>	<u>94,332,679</u>	<u>112,473,415</u>	<u>113,277,696</u>
Net assets, end of year	<u>\$20,966,992</u>	<u>\$19,495,281</u>	<u>\$97,224,829</u>	<u>\$92,978,134</u>	<u>\$118,191,821</u>	<u>\$112,473,415</u>

Governmental Activities

Revenues from the City's governmental activities totaled \$32,922,581 for 2006 compared to \$30,945,485 for 2005. Revenues for 2006 were comprised of the following: property tax revenue (37%), sales tax revenue (16%), State aid revenue (14%) and Board of Public Utilities payments in lieu of tax revenue (10%).

Expenditures of governmental activities totaled \$31,450,870 for 2006 compared to \$30,395,221 for 2005. The City's programs for governmental activities include General Government, Fire, Police, Public Works, Community Development, Parks and Recreation, and Debt Service for Interest.

Business-type Activities

The business-type activities include Electric, Water, Waste Water, Sanitation, and District Heat services. As shown in the Statement of Activities and Changes in Net Assets, the amounts paid by users totaled \$49,299,586 for 2006 and \$45,570,633 for 2005. Investment earnings totaled \$238,034 for 2006 and \$129,820 for 2005. The cost of all Proprietary (Business-type) activities totaled \$45,290,925 for 2006 and \$47,055,099 for 2005.

LONG-TERM LIABILITIES

Governmental Activities

Long-term liabilities included in the City's governmental-activities totaled \$19,210,403 as of December 31, 2006 and \$17,701,121 as of December 31, 2005; a net increase of \$1,509,282. As of December 31, 2006, long-term liabilities were comprised of the following: General Obligation Bonds \$4,442,500; Notes payable to Board of Public Utilities \$1,182,271; Bond anticipation notes payable \$610,000; Compensated absences \$1,916,617; Obligations under capital lease \$7,678,905; Notes payable to NYS Police and Fire Retirement System \$886,699; Note payable to New York Power Authority \$1,670,729; Equipment note payable \$822,682. Detailed information regarding long term liabilities is included in Note 5 to the basic financial statements.

Information Regarding Long Term Liabilities for Governmental Activities

- During the year ended December 31, 2006, the City issued \$3,630,000 of Public Improvement Refunding Serial Bonds to retire \$3,415,000 of Public Improvement Bonds previously outstanding. The City's governmental activities incurred refunding serial bond issuance costs totaling \$239,163 and received a premium of \$24,163 upon issuance of the refunding serial bonds.
- During the year ended December 31, 2006, the City borrowed \$905,000 via a note payable to a financial institution to purchase equipment.
- Through December 31, 2006, the City borrowed \$1,670,729 from the New York Power Authority (NYPA) for energy efficient improvements to facilities. An additional \$711,009 will be borrowed during 2007 to complete the energy efficiency project. The NYPA loan was issued via the City's Board of Public Utilities Electric Division.
- The liability for compensated absences increased \$308,194 to \$1,916,617 as of December 31, 2006.
- As of December 31, 2006, the City maintains a \$7,640,000 capital lease obligation for the Cherry Street and Second Street parking ramps and a \$39,058 capital lease obligation for office equipment.
- During the year ended December 31, 2006, the City repaid a \$335,000 bond anticipation note used to facilitate the construction and renovation to the Cherry and Second Street parking ramps and other parking lots throughout the City. In addition, the City repaid a \$750,000 bond anticipation note used to facilitate the City's property revaluation project via issuance of a new \$610,000 bond anticipation note which is due December 2007, and a principal payment of \$140,000.

Business-type Activities

Long-term liabilities included in the City's business-type activities totaled \$37,769,500 as of December 31, 2006 and \$39,789,000 as of December 31, 2005; a net decrease of \$2,019,500. Detailed information regarding long term liabilities is included in Note 5 to the basic financial statements.

Information Regarding Long Term Liabilities for Business-type Activities

- During the year ended December 31, 2006, the City's business-type activities issued a \$20,235,000 Public Improvement Refunding Serial Bonds to retire \$18,995,000 of Public Improvement Bonds previously outstanding. The City's business-type activities incurred refunding bond issuance costs totaling \$1,379,356 and received a premium of \$139,356 upon issuance of the refunding bond.

LONG-TERM LIABILITIES (CONT'D)

Constitutional Debt Limit

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based upon 7% of the average of the total value of real property for the past five years. At December 31, 2006 the City's general obligation debt, including statutory exclusions, was at 18.50% of the legal limit. Detailed information regarding the statutory debt limit is included in the Note 5 to the basic financial statements.

CAPITAL ASSETS

Governmental Activities

As of December 31, 2006, the City's governmental-activities maintained \$30,732,180 in capital assets (Cost \$49,890,719 less accumulated depreciation of \$19,158,539) compared to \$27,869,707 as of December 31, 2005. Capital additions for 2006 totaled \$4,690,549 and were for the following: infrastructure (including roads, sidewalks, and storm sewers) \$1,712,812; buildings and structures \$90,848; equipment \$1,051,096; vehicles \$76,381; construction in progress (energy efficiency project) \$1,759,412.

Depreciation expense totaled \$1,828,076 for the year ended December 31, 2006 and \$1,516,515 for the year ended December 31, 2005. Detailed information regarding capital asset activity is included in Note 4 to the basic financial statements.

Business-type Activities

As of December 31, 2006, the City's business-type activities maintained \$129,606,337 in capital assets (Cost \$208,229,387 less accumulated depreciation of \$78,623,050) compared to \$130,994,736 as of December 31, 2005. Capital additions for 2006 totaled \$4,899,404 and were for the following: construction in progress \$20,469; Municipal Electric Division \$3,488,954; Waste Water Division \$266,175; Water Division \$915,562; Solid Waste Division \$36,987; District Heat Division \$171,257.

Depreciation expense totaled \$6,326,377 for the year ended December 31, 2006 and \$6,770,145 for the year ended December 31, 2005. Detailed information regarding capital asset activity is included in Note 4 to the basic financial statements.

THE CITY'S GOVERNMENTAL FUNDS

The City's governmental funds reported a combined fund balance of \$8,614,331 as of December 31, 2006 and \$8,685,772 as of December 31, 2005; a decrease of \$71,441. The schedule below indicates the fund balances as of December 31, 2006 and 2005, and the net increase/decrease for the year.

	<u>Fund Balance</u> <u>2006</u>	<u>Fund Balance</u> <u>2005</u>	<u>Increase</u> <u>(Decrease)</u>
General fund	\$ 2,127,493	\$ 1,669,101	\$ 458,392
Capital fund	1,365,343	1,743,256	(377,913)
Special revenue fund	<u>5,121,495</u>	<u>5,273,415</u>	<u>(151,920)</u>
Total	<u>\$ 8,614,331</u>	<u>\$ 8,685,772</u>	<u>\$ (71,441)</u>

THE CITY'S GOVERNMENTAL FUNDS (CONT'D)

General Fund

The change in the City's General fund balance for the year ended December 31, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Revenues and Other Sources:		
Real property taxes	\$12,270,605	\$11,600,259
Real property tax items	211,387	252,859
Non-property tax items	5,685,766	5,672,517
Departmental income	938,808	799,527
Intergovernmental charges	128,163	106,846
State aid	5,465,154	4,486,009
Sale of property/compensation for loss	-	215,000
Board of Public Utilities (PILOT)	3,412,408	3,275,153
Use of money and property	276,259	178,462
Other revenue	461,675	530,245
Proceeds from issuance of debt	-	401,174
Inter-fund transfers in	250,000	170,000
Total revenues	<u>29,100,225</u>	<u>27,688,051</u>
Expenditures:		
General government support	3,247,385	3,312,064
Public safety	9,734,666	9,427,296
Streets	2,388,583	2,495,272
Culture and recreation	1,864,028	1,859,908
Home and community services	691,000	681,593
Capital outlays	734,437	639,000
Employee benefits	7,753,419	7,395,808
Debt service - Principal	1,467,082	992,726
Debt service - Interest	761,233	734,707
	<u>28,641,833</u>	<u>27,538,374</u>
Excess of revenues over expenditures	458,392	149,677
Fund balance, beginning of year	<u>1,669,101</u>	<u>1,519,424</u>
Fund balance, end of year	<u>\$ 2,127,493</u>	<u>\$ 1,669,101</u>

General Fund revenues totaled \$29,100,225 for 2006 and \$27,688,051 for 2005. Increased revenues of \$1,412,174 for 2006 was primarily the result of increased real property taxes of \$670,346; state aid \$979,145; Board of Public Utilities (PILOT) payments of \$137,255.

Expenditures totaled \$28,641,833 for 2006 and \$27,538,374 for 2005. Increased expenditures of \$1,103,459 was primarily the result of the following: debt service principal and interest \$500,882; employee benefits including health and retirement costs \$357,611; public safety \$307,370.

General Fund - Budgetary Highlights

The City's budget is prepared in accordance with New York State law and is based upon the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

For 2006, the City appropriated \$198,424 of its 2005 fund balance. During the year, general fund revenues and other sources exceeded the final budget by \$312,397 while expenditures were \$344,419 less than the final expenditure budget. As a result, the City's fund balance as of December 31, 2006 is \$656,816 higher than budgeted. The 2006 General Fund final expenditure budget totaled \$28,986,252 compared to a 2005 final expenditure budget of \$27,603,998. The 2006 final expenditure budget included a supplementary increase of \$1,089,703 from the original approved budget and is detailed in Note 10 to the basic financial statements. Other appropriations required changes in functional categories due to spending patterns. A detailed budgetary comparison to actual is provided in on page 43.

THE CITY'S GOVERNMENTAL FUNDS (CONT'D)

Capital Fund

The change in the City's Capital fund balance for the years ended December 31, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Revenues and Other Sources:		
Proceeds from issuance of debt	\$ 3,185,729	\$ 1,085,000
General fund appropriations	734,437	639,000
Sale of property	98,744	-
Use of money and property	52,746	169,044
State aid	-	21,091
Other revenue	<u>2,661</u>	<u>11,267</u>
Total revenues	<u>4,074,317</u>	<u>1,925,402</u>
Expenditures and Other Uses:		
Debt service - Principal	610,000	8,250,000
Capital outlay	3,592,230	1,289,283
Transfer out to General Fund	<u>250,000</u>	<u>170,000</u>
	<u>4,452,230</u>	<u>9,709,283</u>
Deficiency of revenues over expenditures	(377,913)	(7,783,881)
Fund balance, beginning of year	<u>1,743,256</u>	<u>9,527,137</u>
Fund balance, end of year	<u>\$ 1,365,343</u>	<u>\$ 1,743,256</u>

The increase in Capital fund revenues of \$2,148,915 for 2006 was primarily the result of borrowing \$905,000 for equipment purchases and \$1,670,729 for the energy efficiency project.

For the year ended December 31, 2006, capital expenditures totaled \$3,592,230 and were comprised of the following:

Energy efficiency project	\$ 1,670,729
Equipment	871,026
Street resurfacing, construction, curb, gutter, sidewalks	632,701
Storm Sewers	61,299
Land Improvements	60,963
Sidewalks	50,000
Other	<u>245,512</u>
	<u>\$ 3,592,230</u>

Special Revenue Fund

The Special Revenue Fund of the City is comprised of Department of Development operations, Risk Retention activity, and Federal and State Grant revenue and expenditures.

The change in the City's Special Revenue fund balance for the years ended December 31, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Revenues and Other Sources:		
Departmental income	\$ 490,354	\$ 581,595
Use of money and property	284,453	201,037
Inter-fund revenues	292,000	268,438
Federal aid	2,380,538	2,532,198
State aid	588,376	324,316
Other revenue	<u>172,479</u>	<u>182,713</u>
Total revenues	<u>4,208,200</u>	<u>4,090,297</u>

Special Revenue Fund (Cont'd)

	<u>2006</u>	<u>2005</u>
Expenditures and Other Uses:		
General government support	\$ 905,541	\$ 929,876
Home and community services/development	2,828,580	2,924,316
Capital outlays	<u>625,999</u>	<u>411,612</u>
	<u>4,360,120</u>	<u>4,265,804</u>
 Deficiency of revenues over expenditures	 (151,920)	 (175,507)
 Fund balance, beginning of year	 <u>5,273,415</u>	 <u>5,448,922</u>
 Fund balance, end of year	 <u>\$ 5,121,495</u>	 <u>\$ 5,273,415</u>

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Self-Insured Health and Dental Plan

The City maintains a self-insured health and dental care plan for its employees and retirees. The plan is administered by a third party administrator. As health care costs continue to rise, the City has made it a priority during contract negotiations with its various labor units, to negotiate increased employee and retiree contributions, co-pays and deductibles.

Employee Retirement Systems

During recent years, all municipalities in the State of New York, including the City of Jamestown, New York, have experienced a significant increase in the cost of retirement benefits paid on behalf of employees participating in the NYS and Local Employees Retirement System and the NYS and Local Police and Fire Retirement System. For the year ended December 31, 2006, the City contributed 10.7% of eligible wages to the NYS and Local Employees Retirement System and 15.0% of eligible wages to the NYS Police and Local Fire Retirement System. The New York State Comptroller has projected future contribution rates as follows:

<u>Year</u>	<u>NYS and Local Employees</u>	<u>NYS and Local Police and Fire</u>
2007	9.3%	14.7%
2008	8.4%	14.5%
2009	12.8%	19.5%

Labor Negotiations

The City of Jamestown, New York maintains labor contracts with its five collective bargaining units. The terms of those agreements resulted in pay increases ranging from 3.0% and 3.25% through 2007.

Constitutional Tax Limit

For 2006, the City was at 79.00% of its Constitutional Tax Limit (See Note 3), compared to 74.49% for 2005. Over the next several years, the City is anticipating a modest increase in its taxable assessment base resulting from a number of economic development activities and a property reassessment which was substantially completed in 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report, contact the Office of Comptroller at the City Hall, 200 East Third, Jamestown, New York, 14701, phone 716-483-7538.

CITY OF JAMESTOWN, NEW YORK
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>PRIMARY GOVERNMENT</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,123,363	\$ 8,053,222	\$ 12,176,585
Receivables:			
State, federal, and local governments	1,888,114	-	1,888,114
School taxes	1,114,897	-	1,114,897
Accounts and other, net of allowance	636,200	4,375,961	5,012,161
Loans, net of allowance	3,049,718	1,182,271	4,231,989
Prepaid expenses and deposits	636,066	13,796	649,862
Deposits held in custody	603,885	-	603,885
Bond issuance costs, net	212,119	-	212,119
Property acquired for taxes and held for sale	236,687	-	236,687
Inventories	47,218	1,508,518	1,555,736
Work in process	384,930	-	384,930
Other assets	-	975,543	975,543
Deferred charges	-	2,469,592	2,469,592
Capital assets:			
Land and construction in progress	2,967,167	5,365,366	8,332,533
Other capital assets, net of depreciation	<u>27,765,013</u>	<u>124,240,971</u>	<u>152,005,984</u>
 Total assets	 <u>\$ 43,665,377</u>	 <u>\$148,185,240</u>	 <u>\$191,850,617</u>
 <u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 1,673,102	\$ 3,393,834	\$ 5,066,936
Due to other governments	1,793,449	-	1,793,449
Bond premium, net	21,431	-	21,431
Consumer deposits	-	304,734	304,734
Deferred revenue	-	36,445	36,445
Non current liabilities:			
Due within one year	2,080,682	2,699,500	4,780,182
Due in more than one year	17,129,721	35,070,000	52,199,721
Other noncurrent liabilities:			
Accumulated post employment obligation	-	7,473,209	7,473,209
Miscellaneous operating reserves	-	<u>1,982,689</u>	<u>1,982,689</u>
Total liabilities	<u>22,698,385</u>	<u>50,960,411</u>	<u>73,658,796</u>
 <u>NET ASSETS</u>			
Investment in capital assets, net of related debt	14,935,093	91,728,656	106,663,749
Restricted for:			
Capital projects/capital lease deposit	1,359,228	-	1,359,228
Economic development	5,563,742	-	5,563,742
Risk retention	186,424	-	186,424
Unrestricted	<u>(1,077,495)</u>	<u>5,496,173</u>	<u>4,418,678</u>
Total net assets	<u>20,966,992</u>	<u>97,224,829</u>	<u>118,191,821</u>
 Total liabilities and net assets	 <u>\$ 43,665,377</u>	 <u>\$148,185,240</u>	 <u>\$191,850,617</u>

The accompanying notes are an integral part of these financial statements.

CITY OF JAMESTOWN, NEW YORK
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
		<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>			
Primary Government:							
Governmental activities:							
General support	\$ 4,504,441	\$ 685,256	\$ 12,417	\$ -	\$ (3,806,768)	\$ -	\$ (3,806,768)
Public safety	9,997,203	770,284	-	-	(9,226,919)	-	(9,226,919)
Public improvements/projects	229,385	-	-	873,578	644,193	-	644,193
Streets	2,424,473	86,854	-	-	(2,337,619)	-	(2,337,619)
Culture and recreation	1,882,967	-	-	-	(1,882,967)	-	(1,882,967)
Home and community service	3,644,005	490,354	3,015,451	-	(138,200)	-	(138,200)
Employee benefits	7,929,602	-	-	-	(7,929,602)	-	(7,929,602)
Debt service	838,794	-	-	-	(838,794)	-	(838,794)
Total Governmental activities	<u>31,450,870</u>	<u>2,032,748</u>	<u>3,027,868</u>	<u>873,578</u>	<u>(25,516,676)</u>	<u>-</u>	<u>(25,516,676)</u>
Business-type activities:							
Board of Public Utilities	<u>45,290,925</u>	<u>49,299,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,008,661</u>	<u>4,008,661</u>
Total Business-type activities	<u>45,290,925</u>	<u>49,299,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,008,661</u>	<u>4,008,661</u>
 Total Primary Government	 <u>\$ 76,741,795</u>	 <u>\$ 51,332,334</u>	 <u>\$ 3,027,868</u>	 <u>\$ 873,578</u>	 <u>(25,516,676)</u>	 <u>4,008,661</u>	 <u>(21,508,015)</u>
 General Revenues:							
Property taxes for general purposes					\$ 12,268,124	\$ -	\$ 12,268,124
Sales taxes for general purposes					5,111,811	-	5,111,811
State aid not restricted to specific purpose					4,550,888	-	4,550,888
Board of Public Utilities (PILOT)					3,412,408	-	3,412,408
Investment earnings					613,458	238,034	851,492
Refunds and other unclassified revenue					413,652	-	413,652
Franchise fees/Utilities gross receipts					406,659	-	406,659
Other tax items					211,387	-	211,387
Total general revenues					<u>26,988,387</u>	<u>238,034</u>	<u>27,226,421</u>
 Change in net assets					 1,471,711	 4,246,695	 5,718,406
 Net assets, beginning of year					 <u>19,495,281</u>	 <u>92,978,134</u>	 <u>112,473,415</u>
 Net assets, end of year					 <u>\$ 20,966,992</u>	 <u>\$ 97,224,829</u>	 <u>\$ 118,191,821</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF JAMESTOWN, NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 841,822	\$ 1,061,679	\$ 2,219,862	\$ -	\$ 4,123,363
Receivables:					
State, Federal, and Local Governments	1,624,986	-	263,128	-	1,888,114
School taxes	1,114,897	-	-	-	1,114,897
Other	592,185	-	7,979	-	600,164
Accounts - Public Works	36,036	-	-	-	36,036
Loans, less allowance for loan loss	-	-	3,049,718	-	3,049,718
Prepaid expenses	636,066	-	-	-	636,066
Deposit held in custody	603,885	-	-	-	603,885
Property acquired for taxes and held for sale	9,044	-	227,643	-	236,687
Due from other funds	346,105	346,061	355,294	-	1,047,460
Inventories	47,218	-	-	-	47,218
Work-in-process	384,930	-	-	-	384,930
Total Assets	<u>\$ 6,237,174</u>	<u>\$ 1,407,740</u>	<u>\$ 6,123,624</u>	<u>\$ -</u>	<u>\$13,768,538</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Payables:					
Accounts	\$ 645,209	\$ 11,959	\$ 56,031	\$ -	\$ 713,199
School district	1,793,449	-	-	-	1,793,449
Other	84,876	-	1,760	-	86,636
Accrued liabilities	658,509	-	-	-	658,509
Due to other funds	916,113	30,438	315,667	-	1,262,218
Deferred revenue:					
Property taxes	9,044	-	-	-	9,044
Other	2,481	-	161,261	-	163,742
Grants	-	-	467,410	-	467,410
Total Liabilities	<u>4,109,681</u>	<u>42,397</u>	<u>1,002,129</u>	<u>-</u>	<u>5,154,207</u>
<u>FUND BALANCES</u>					
Reserved for:					
Capital expenditures	603,885	1,365,343	-	-	1,969,228
Economic development	-	-	4,935,071	-	4,935,071
Risk retention	-	-	186,424	-	186,424
Designated for subsequent year's expenditures	300,000	-	-	-	300,000
Unappropriated fund balance	1,223,608	-	-	-	1,223,608
Total Fund Balances	<u>2,127,493</u>	<u>1,365,343</u>	<u>5,121,495</u>	<u>-</u>	<u>8,614,331</u>
 Total Liabilities and Fund Balances	 <u>\$ 6,237,174</u>	 <u>\$ 1,407,740</u>	 <u>\$ 6,123,624</u>	 <u>\$ -</u>	 <u>\$13,768,538</u>

The accompanying notes are an integral part of these financial statements.

CITY OF JAMESTOWN, NEW YORK

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets**

YEAR ENDED DECEMBER 31, 2006

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

Total fund balance - governmental funds	\$ 8,614,331
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$49,890,719 and the accumulated depreciation is \$19,158,539.	30,732,180
Bond issuance costs are not financial resources and, therefore, are not reported in the funds. Bond issuance costs totaled \$239,163 and the accumulated amortization is \$27,044.	212,119
Long term liabilities, including bonds and notes payable, capital lease obligations and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(19,210,403)
Bond premium is not due and payable in the current period and therefore are not reported in the funds. Bond premium totaled \$24,163 and the accumulated accretion is \$2,732.	(21,431)
Grants and other receipts restricted for a specific purpose are deferred in the governmental funds until the restriction is met. The government-wide financial statements recognize grants and other receipts when received.	631,152
Property tax revenue is recognized in the period for which levied rather than when available. The governmental funds defer that amount which is not currently available.	<u>9,044</u>
Total net assets - governmental activities	<u>\$20,966,992</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF JAMESTOWN, NEW YORK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Real property taxes	\$12,270,605	\$ -	\$ -	\$ -	\$12,270,605
Real property tax items	211,387	-	-	-	211,387
Non-property tax items	5,685,766	-	-	-	5,685,766
Departmental income	938,808	-	490,354	-	1,429,162
Intergovernmental charges	128,163	-	-	-	128,163
Use of money and property	276,259	52,746	284,453	-	613,458
Licenses and permits	161,947	-	-	-	161,947
Fines and forfeitures	158,597	-	-	-	158,597
Sale of property/compensation for loss	-	98,744	-	-	98,744
Other unclassified revenue	10,676	2,661	152,371	-	165,708
Board of Public Utilities (PILOT)	3,412,408	-	-	-	3,412,408
Refund of prior year expenditures	130,455	-	20,108	-	150,563
State aid	5,465,154	-	588,376	-	6,053,530
Interfund revenues	-	734,437	292,000	-	1,026,437
Federal aid	-	-	2,380,538	-	2,380,538
Total revenues	<u>28,850,225</u>	<u>888,588</u>	<u>4,208,200</u>	<u>-</u>	<u>33,947,013</u>
Expenditures:					
General government support	3,247,385	-	905,541	-	4,152,926
Public safety	9,734,666	-	-	-	9,734,666
Streets	2,388,583	-	-	-	2,388,583
Culture and recreation	1,864,028	-	-	-	1,864,028
Home and community services/development	691,000	-	2,828,580	-	3,519,580
Capital outlays	734,437	3,592,230	625,999	-	4,952,666
Employee benefits	7,753,419	-	-	-	7,753,419
Debt service - principal	1,467,082	610,000	-	3,415,000	5,492,082
Debt service - interest	761,233	-	-	-	761,233
Total expenditures	<u>28,641,833</u>	<u>4,202,230</u>	<u>4,360,120</u>	<u>3,415,000</u>	<u>40,619,183</u>
Excess (deficiency) revenues over expenditures	<u>208,392</u>	<u>(3,313,642)</u>	<u>(151,920)</u>	<u>(3,415,000)</u>	<u>(6,672,170)</u>
Other Sources (Uses):					
Proceeds from issuance of refunding serial bonds	-	-	-	3,630,000	3,630,000
Proceeds from issuance of debt	-	3,185,729	-	-	3,185,729
Original issue premium from refunding bonds	-	-	-	24,163	24,163
Issuance costs - refunding bonds	-	-	-	(239,163)	(239,163)
Interfund transfers	250,000	(250,000)	-	-	-
Total other sources	<u>250,000</u>	<u>(250,000)</u>	<u>-</u>	<u>3,415,000</u>	<u>6,600,729</u>
Net change in fund balances	458,392	(377,913)	(151,920)	-	(71,441)
Fund balances, beginning of year	<u>1,669,101</u>	<u>1,743,256</u>	<u>5,273,415</u>	<u>-</u>	<u>8,685,772</u>
Fund balances, end of year	<u>\$ 2,127,493</u>	<u>\$ 1,365,343</u>	<u>\$ 5,121,495</u>	<u>\$ -</u>	<u>\$ 8,614,331</u>

The accompanying notes are an integral part to these financial statements.

CITY OF JAMESTOWN, NEW YORK

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities**

**Governmental Funds
YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds \$ (71,441)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$4,690,549 exceed depreciation \$1,828,076 in the current year. 2,862,473

Governmental funds report bond issuance costs as expenditures. However, in the statement of activities, the cost of bond issuance costs is allocated over the life of the issued bonds. This is the amount by which bond issuance costs of \$239,163 exceeded amortization \$27,044 in the current year. 212,119

Governmental funds report the premium on bonds issued as revenue. However, in the statement of activities, the bond premium is accreted over the life of the issued bonds. This is the amount by which the bond premium of \$24,163 exceeded accretion of \$2,732. (21,431)

Governmental funds report bond and other debt proceeds as other financing sources while repayment of principal is reported as an expenditure. The net effect of these differences in the treatment of bond and other debt proceeds as well as the payment of principal is as follows:

Proceeds from issuance of:		
Bond anticipation notes	\$ (610,000)	
Refunding serial bonds	(3,630,000)	
Note payable for equipment purchases	(905,000)	
Note payable to New York Power Authority (via BPU)	(1,670,729)	
Principal payments:		
Bond anticipation notes	1,085,000	
General obligation bonds	4,157,500	
Board of Public Utilities notes	56,627	
NYS Police/Fire Retirement System notes	83,501	
Note payable for equipment purchases	82,318	
Obligations under capital leases	<u>149,695</u>	
		(1,201,088)

Governmental funds do not recognize the net increase in the liability for compensated absences. The government-wide financial statements includes as an expenditure, the net increase in the liability for compensated absences. (308,194)

Proceeds from the sale of property acquired for taxes are recognized as revenue in the governmental funds when sold. The government-wide financial statements recognize these items when acquired. (2,481)

Grants and other receipts restricted for a specific purpose are deferred in the governmental funds until the restriction is met via expenditure. The government-wide financial statements recognize restricted grants and other receipts when received. 1,754

Change in net assets of governmental activities \$ 1,471,711

The accompanying notes are an integral part to these financial statements.

**CITY OF JAMESTOWN, NEW YORK
 PROPRIETARY FUND
 STATEMENT OF NET ASSETS**

DECEMBER 31, 2006

**Business-type Activities
 Enterprise Fund
Board of Public Utilities**

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,053,222
Receivables:	
Accounts (less provision for uncollectible accounts of \$284,846)	3,796,535
Affiliates	579,426
Inventories - materials and supplies	1,508,518
Other current and accrued assets	<u>961,888</u>
Total current assets	<u>14,899,589</u>

Noncurrent assets:

Property and equipment, net	129,606,337
Notes receivable - City of Jamestown, New York	1,182,271
Deferred charges	2,469,592
Deposits and prepayments	13,796
Non-utility property	<u>13,655</u>
Total noncurrent assets	<u>133,285,651</u>

Total Assets	<u><u>\$148,185,240</u></u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$ 3,393,834
Consumer deposits	304,734
Deferred revenue	36,445
Current maturities of long-term debt	<u>2,699,500</u>
Total current liabilities	<u>6,434,513</u>

Noncurrent liabilities:

Long term debt, less current maturities	35,070,000
Accumulated post employment obligation	7,473,209
Miscellaneous operating reserves	<u>1,982,689</u>
Total noncurrent liabilities	<u>44,525,898</u>

Total Liabilities	<u>50,960,411</u>
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NET ASSETS

Invested in capital assets, net of related debt	91,728,656
Unrestricted	<u>5,496,173</u>
Total net assets	<u>97,224,829</u>

Total Liabilities and Net Assets	<u><u>\$148,185,240</u></u>
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The accompanying notes are an integral part to these financial statements.

**CITY OF JAMESTOWN, NEW YORK
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2006**

	Business-type Activities Enterprise Fund <u>Board of Public Utilities</u>
Operating Revenues	<u>\$ 49,299,586</u>
Operating Expenses:	
Utility energy and operation	22,784,661
Administrative, general and taxes	8,081,452
Depreciation and amortization	6,195,527
Contributions to City of Jamestown, NY in Lieu of Taxes	3,412,408
Sewage treatment and disposal	1,759,813
Consumer accounts	1,005,101
Supplies and contractual	<u>158,575</u>
Total Operating Expenses	<u>43,397,537</u>
Operating Income	<u>5,902,049</u>
Nonoperating Expense (Revenue):	
Interest expense	1,752,078
Other expense	141,310
Interest income	<u>(238,034)</u>
Total Nonoperating Expense (Revenue), net	<u>1,655,354</u>
Change in net assets	4,246,695
Net assets, beginning of year	<u>92,978,134</u>
Net assets, end of year	<u>\$ 97,224,829</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF JAMESTOWN, NEW YORK
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006**

**Business-type Activities
 Enterprise Fund
Board of Public Utilities**

Cash Flows from Operating Activities:	
Cash received from customers	\$ 49,567,480
Cash paid to suppliers and employees	(31,798,951)
Cash paid for taxes and payments in lieu of taxes	(5,657,554)
Interest paid	(1,749,710)
Interest received	238,034
Net cash provided by operating activities	<u>10,599,299</u>
Cash Flows from Investing Activities:	
Capital expenditures	(4,899,404)
Decrease in Renewal and Replacement Fund	67,199
Principal received on loans - City of Jamestown	56,627
Net cash used in investing activities	<u>(4,775,578)</u>
Cash Flows from Financing Activities:	
Principal payments on long-term debt	<u>(3,259,500)</u>
Net cash provided in financing activities	<u>(3,259,500)</u>
Net Increase in Cash and Cash Equivalents	2,564,221
Cash and Cash Equivalents, beginning of year	<u>5,489,001</u>
Cash and Cash Equivalents, end of year	<u>\$ 8,053,222</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 4,246,695
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>	
Depreciation and amortization	6,432,064
Provision for losses on accounts receivable	(3,508)
Accumulated post-retirement benefit obligation	438,951
Change in miscellaneous operating reserves	192,017
<i>Change in operating assets and liabilities:</i>	
Accounts receivable	376,946
Inventories - materials and supplies	294,093
Other current and accrued assets	519,677
Checks issued against future deposits	(62,287)
Accounts payable and accrued liabilities	(2,008,199)
Deferred revenue	36,445
Consumer deposits	<u>136,405</u>
Net cash provided by operating activities	<u>\$ 10,599,299</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF JAMESTOWN, NEW YORK
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

DECEMBER 31, 2006

	<u>Agency Funds</u>	<u>Recreation Department Trust Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,163,106	\$ 71,083	\$ 1,234,189
Due from other funds	<u>214,758</u>	<u>-</u>	<u>214,758</u>
Total assets	<u>\$ 1,377,864</u>	<u>\$ 71,083</u>	<u>\$ 1,448,947</u>
<u>LIABILITIES</u>			
Amounts held in custody for others	<u>1,377,864</u>	<u>-</u>	<u>1,337,864</u>
Total liabilities	<u>1,377,864</u>	<u>-</u>	<u>1,337,864</u>
<u>NET ASSETS</u>			
Net assets held in trust	<u>-</u>	<u>71,083</u>	<u>71,083</u>
Total net assets	<u>-</u>	<u>71,083</u>	<u>71,083</u>
Total liabilities and net assets	<u>\$ 1,377,864</u>	<u>\$ 71,083</u>	<u>\$ 1,448,947</u>

The accompanying notes are an integral part of the financial statements.

CITY OF JAMESTOWN, NEW YORK

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

DECEMBER 31, 2006

	Recreation Department Trust Funds
<u>ADDITIONS</u>	
Miscellaneous revenues	\$ 32,397
Interest income	<u>2,215</u>
Total additions	<u>34,612</u>
<u>DEDUCTIONS</u>	
Culture and recreation	<u>\$ 35,222</u>
Total deductions	<u>35,222</u>
CHANGE IN NET ASSETS	(610)
Net assets held in trust:	
Beginning of Year	<u>71,693</u>
End of Year	<u>\$ 71,083</u>

The accompanying notes are an integral part of the financial statements.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Jamestown, New York have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local 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 accounting policies of the City are described below.

A. Reporting Entity

The City of Jamestown, New York, which was established in 1886, is governed by City Law and other general laws of the State of New York and various local laws. The City Council is the legislative body responsible for overall operations and the Mayor serves as chief fiscal officer. The City is located in the County of Chautauqua, New York.

The City provides the following basic services: general government support, police and fire protection, safety inspection, highway maintenance, recreation programs, water service, street lighting, garbage collection, electric and district heating services.

The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities included in the City's reporting entity:

Board of Public Utilities

The Board of Public Utilities was established under Section 122 of the Jamestown City Code to supply the Jamestown area, as well as other municipalities, with electricity, water, sewer, sanitation and district heating services. Under Section 127 of the Jamestown City Code, it is the City Council's responsibility to provide for any deficiency in sinking fund requirements for all bonds outstanding. Under Section 129 of the Jamestown City Code, the City Council is responsible for financial matters. Thus, the Board of Public Utilities is included in the reporting entity as a business-type activity.

Department of Development

The Department of Development was established under Section 163(a) of the Jamestown City Code to coordinate and carry out the directives and policies of planning, urban renewal, housing, improvement of the central business district and industrial development within the geographic boundaries of the City. The majority of the Board is comprised of City Council members, the Mayor and the Director of Finance. Financial activity for the Department of Development is included in the Special Revenue Fund in the accompanying basic financial statements.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment health care benefits, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

The City reports the following major governmental funds:

- The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in other funds.
- The *capital projects fund* accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and improvements to facilities, and procurement of equipment.
- The *special revenue fund* accounts for the proceeds of specific revenue sources such as Federal and State grants, that are legally restricted to expenditure for specified purposes.
- The *debt service fund* accounts for the proceeds of the refunding serial bonds issued, the premium received upon issuance, serial bonds retired, and debt issuance cost.

The City reports the following major proprietary fund:

- The *Board of Public Utilities* is used to account for the operations of the Municipal Electric System, Municipal Water System, Municipal Waste Water System, Solid Waste Division, and District Heating Division.

Additionally, the City reports the following fund type:

- Fiduciary funds include *agency funds* and *expendable trust funds* which are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments.

Private-sector standards of accounting and financial reporting generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Board of Public Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City pools cash resources of its various funds in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

New York State statutes govern the City's investment policies. City monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Director of Finance is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposits at 102% of all deposits 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 New York State and its municipalities and school districts.

Due to and Due from Other Funds

Inter-fund receivable and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

Property Taxes Receivable

Real property taxes are levied annually on January 1, and are due January 31. All unpaid City taxes are returned to the County of Chautauqua, New York on or about June 1 each year for collection and enforcement. The County pays the City 45% of the returned City taxes immediately. The balance is paid in December, thereby assuring the City 100% of its tax collections. Real property taxes and similar items collected within 60 days following December 31 are recognized as revenue. Deferred revenues include real property taxes and similar items not collected within this period.

Inventories and Prepaid Items

Inventories are valued at cost which approximates market, using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when used (consumption method). Certain payments for insurance and retirement reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities and Net Assets or Equity (Cont'd)

Capital Assets (Cont'd)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Maintenance equipment	15
Land improvements	20
Infrastructure:	
Streets	20-40
Sidewalks	20-40
Storm sewers	50
Machinery and equipment:	
Furniture and furniture	10
Heavy equipment	15
Vehicles	5
Computers	5

Compensated Absences

Full time, permanent employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time within twelve months from the date that vacation time is credited to their account (employee anniversary date). Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated by active employees. Unused accumulated sick leave is paid to employees who retire with ten or more years of continuous service, to a maximum of 200 days.

Vested or accumulated general leave that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide presentations. The government-wide financial statements include a liability for compensated absences for employees who have attained age 55 and are participants in the NYS Employees Retirement System and employees with twenty years of service who are participants in the NYS Police and Fire Retirement System.

Vested or accumulated general leave attributable to employees of the proprietary fund's Board of Public Utilities is recorded as an expense and liability of that fund as the benefits accrue to employees.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. Assets, Liabilities and Net Assets or Equity (Cont'd)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

E. Other Items

Post-employment Benefits

In addition to providing pension benefits, the City provides health and dental insurance coverage and survivor benefits for retired employees and their survivors. Retired employees and survivors are eligible for continued participation in the same health and dental insurance plans of the City as provided for active employees, provided that such retirees continue to pay to the City an amount equal to amounts paid towards health and dental insurance premiums as active employees are required to pay to participate in said health and dental insurance. Upon the death of an eligible retired employee, the spouse of such employee may continue to participate in the aforementioned health and dental insurance plans provided such spouse continues to pay the portion of premiums required to be paid by an active employee. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid.

Statement of Cash Flows

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity when purchased of three months or less to be cash equivalents.

Insurance

The City purchases insurance covering liability for most risks including, but not limited to, property damage, general liability, vehicle liability, workers' compensation and excess liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated and the estimated amount of loss exceeds insurance coverage.

In addition, the City acts as a self-insurer for health and dental insurance. The City carries stop/loss insurance which covers claims which exceed the individual specific deductible of \$135,000. It is the City's policy to estimate the cost of claims outstanding at year end and record this amount as a liability.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F. Budgets and Budgetary Accounting

Budget Policies

No later than September 30, the City Comptroller submits a tentative budget to the City for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds. After public hearings are conducted to obtain taxpayer comments, no later than December 8th, the City Council adopts the budget. All modifications of the budget must be approved by the City Council.

Budgetary Control

The appropriated budget for each fund is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Budgetary control over individual capital projects is provided by City Council approval of bond authorizations and provisions of bond indebtedness.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits and Investments

Deposits and investments are valued at cost and are categorized as either (1) insured or collateralized with securities held by the City or its agent in the City's name, (2) collateralized with securities held by the pledging financial institution's trust department or agency in the City's name; or (3) uncollateralized; this includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the City's name. Deposits and investments at year end were entirely covered by Federal Depository Insurance and collateralized with securities held by the pledging financial institutions' trust department in City's name.

Carrying amounts of deposits	\$ 13,410,774
Less Fiduciary Funds cash and equivalents	<u>(1,234,189)</u>
Total cash and equivalents - Government-wide Statement of Net Assets	<u>\$ 12,176,585</u>
Governmental activities	\$ 4,123,363
Business-type activities	<u>8,053,222</u>
	<u>\$ 12,176,585</u>

The City's financial institution (bank) balances at December 31, 2006 were fully FDIC insured and/or collateralized.

NOTE 3 - CONSTITUTIONAL TAX MARGIN AND LIMIT

Constitutional Tax Margin

The City's constitutional tax margin for the year ended December 31, 2006 was computed as follows:

Five-year Average Full Valuation of Taxable Real Estate (2001-2005)	<u>\$613,151,428</u>
Constitutional Tax limit - 2% of Five-year Average Full Valuation of Taxable Real Estate	\$ 12,263,029
Statutory Exclusions from Constitutional Tax Limit:	
Debt Service for General Obligation Bonds	1,746,706
Debt Service for Revenue Producing Purposes	878,637
Debt service for Bond Anticipation Notes	111,099
Budgetary appropriations for capital expenditures	580,000
Revenue designated for debt service	<u>(50,000)</u>
Constitutional tax limit	15,529,471
Tax levy for 2006	<u>12,268,125</u>
Constitutional tax margin	<u>\$ 3,261,346</u>

Constitutional Tax Limit

The City's tax levy for 2006 totaled \$12,268,125 which was 79.00% of its constitutional tax limit of \$15,529,471.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,207,755	\$ -	\$ -	\$ 1,207,755
Construction in progress	<u>-</u>	<u>1,759,412</u>	<u>-</u>	<u>1,759,412</u>
Total capital assets not being depreciated	<u>1,207,755</u>	<u>1,759,412</u>	<u>-</u>	<u>2,967,167</u>
Capital assets being depreciated:				
Infrastructure	17,248,165	1,712,812	-	18,960,977
Buildings and structures	18,237,997	90,848	-	18,328,845
Equipment	6,984,405	1,051,096	-	8,035,501
Vehicles	<u>1,546,348</u>	<u>76,381</u>	<u>(24,500)</u>	<u>1,598,229</u>
Total capital assets being depreciated	<u>44,016,915</u>	<u>2,931,137</u>	<u>(24,500)</u>	<u>46,923,552</u>
Accumulated depreciation for:				
Infrastructure	(4,631,904)	(624,549)	-	(5,256,453)
Buildings and structures	(7,264,608)	(458,880)	-	(7,723,488)
Equipment	(4,258,598)	(609,447)	-	(4,868,045)
Vehicles	<u>(1,199,853)</u>	<u>(135,200)</u>	<u>24,500</u>	<u>(1,310,553)</u>
Total accumulated depreciation	<u>(17,354,963)</u>	<u>(1,828,076)</u>	<u>24,500</u>	<u>(19,158,539)</u>
Total capital assets being depreciated, net	<u>26,661,952</u>	<u>1,103,061</u>	<u>-</u>	<u>27,765,013</u>
Governmental activities capital assets, net	<u>\$27,869,707</u>	<u>\$ 2,862,473</u>	<u>\$ -</u>	<u>\$30,732,180</u>

Depreciation Expense

Capital assets are stated at cost. Depreciation expense is calculated utilizing the straight-line method.

Depreciation expense for the year ended December 31, 2006 was charged to the following:

Governmental activities:

General support	\$ 435,037
Public safety	308,703
Streets	356,087
Culture and recreation	31,714
Home and Community	<u>696,535</u>
Total depreciation expense, governmental activities	<u>\$ 1,828,076</u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (CONT'D)

Business-type activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,072,051	\$ -	\$ -	\$ 2,072,051
Construction in progress	3,490,681	(197,366)	-	3,293,315
Total capital assets not being depreciated	<u>5,562,732</u>	<u>(197,366)</u>	<u>-</u>	<u>5,365,366</u>
Capital assets being depreciated:				
Electric Division	139,635,386	3,542,891	(3,662,843)	139,515,434
Waste Water Division	26,469,753	336,039	-	26,805,792
Water Division	28,968,811	1,009,596	(2,796,128)	27,182,279
Solid Waste Division	867,065	36,987	-	904,052
District Heat Division	<u>8,285,207</u>	<u>171,257</u>	<u>-</u>	<u>8,456,464</u>
Total capital assets being depreciated	<u>204,226,222</u>	<u>5,096,770</u>	<u>(6,458,971)</u>	<u>202,864,021</u>
Accumulated depreciation for:				
Electric Division	(50,120,196)	(4,643,273)	3,662,843	(51,100,626)
Waste Water Division	(10,923,824)	(572,237)	-	(11,496,061)
Water Division	(13,361,277)	(724,571)	2,834,702	(11,251,146)
Solid Waste Division	(539,503)	(43,718)	-	(583,221)
District Heat Division	<u>(3,849,418)</u>	<u>(342,578)</u>	<u>-</u>	<u>(4,191,996)</u>
Total accumulated depreciation	<u>(78,794,218)</u>	<u>(6,326,377)</u>	<u>6,497,545</u>	<u>(78,623,050)</u>
Total capital assets being depreciated, net	<u>125,432,004</u>	<u>(1,229,607)</u>	<u>38,574</u>	<u>124,240,971</u>
Business-type activities capital assets, net	<u>\$130,994,736</u>	<u>\$ (1,426,973)</u>	<u>\$ 38,574</u>	<u>\$129,606,337</u>

Depreciation Expense

Capital assets are stated at cost, which includes payroll and payroll related costs, transportation costs, and overhead. Depreciation of capital assets is computed using group composite straight-line rates. When capital assets are retired, the capitalized cost, together with the cost of removal less salvage value, if any, are charged to the accumulated depreciation.

Depreciation expense for the year ended December 31, 2006 was charged to the following:

Business-type activities:

Electric Division	\$ 4,643,273
Waste Water Division	572,237
Water Division	724,571
Solid Waste Division	43,718
District Heat Division	<u>342,578</u>
Total depreciation expense, business-type activities	<u>\$ 6,326,377</u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT

Governmental and Business-type Activities:

Summary of Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended December 31, 2006 follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retired</u>	<u>End of Year</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
General obligation bonds	\$ 4,970,000	\$ 3,630,000	\$ (4,157,500)	\$ 4,442,500	\$ 707,500
Notes and capital lease obligations:					
Board of Public Utilities:					
Note payable	1,119,311	-	(50,984)	1,068,327	53,461
Note payable	98,748	-	(3,680)	95,068	3,830
Note payable	20,839	-	(1,963)	18,876	2,045
NYS Police/Fire Retirement System	569,026	-	(51,606)	517,420	54,184
NYS Police/Fire Retirement System	401,174	-	(31,895)	369,279	33,490
NYPA (via Board of Public Utilities)	-	1,670,729	-	1,670,729	116,036
Equipment note payable	-	905,000	(82,318)	822,682	113,201
Obligations under capital leases:					
Parking ramps	7,750,637	-	(110,637)	7,640,000	175,000
Equipment	77,963	-	(39,058)	38,905	20,273
	<u>10,037,698</u>	<u>2,575,729</u>	<u>(372,141)</u>	<u>12,241,286</u>	<u>571,520</u>
Other:					
Bond anticipation notes	1,085,000	610,000	(1,085,000)	610,000	610,000
Compensated absences	1,608,423	308,194	-	1,916,617	191,662
	<u>2,693,423</u>	<u>918,194</u>	<u>(1,085,000)</u>	<u>2,526,617</u>	<u>801,662</u>
Total Governmental activities	<u>\$17,701,121</u>	<u>\$ 7,123,923</u>	<u>\$ (5,614,641)</u>	<u>\$19,210,403</u>	<u>\$ 2,080,682</u>
<u>Business-type Activities:</u>					
General obligation bonds and notes	\$39,789,000	\$21,035,000	\$ (23,054,500)	\$37,769,500	\$ 2,699,500
Total Business-type activities	<u>\$39,789,000</u>	<u>\$21,035,000</u>	<u>\$ (23,054,500)</u>	<u>\$37,769,500</u>	<u>\$ 2,699,500</u>

Refunding Serial Bonds Issued

During the year ended December 31, 2006, the City of Jamestown, NY issued Public Improvement Refunding Serial Bonds totaling \$23,865,000 as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Refunding Serial Bonds Issued	\$ 3,630,000	\$ 20,235,000	\$ 23,865,000
Premium received	24,163	139,356	163,519
Serial bonds retired	(3,415,000)	(18,995,000)	(22,410,000)
Bond issuance costs	(239,163)	(1,379,356)	(1,618,519)
Net proceeds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Refunding Serial Bond Issuance Costs

The refunding serial bond issuance costs of \$239,163 included in governmental-activities have been capitalized and are being amortized over the life of the bonds. Amortization expense for the year ended December 31, 2006 totaled \$27,044 and is included in debt service costs. The business-type activities include the unamortized debt issuance costs in deferred charges.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (CONT'D)

Governmental and Business-type Activities (Cont'd):

Constitutional Debt Limit

As of December 31, 2006, the City's constitutional debt limit is computed as follows:

Five-year Average Full Valuation of Taxable Real Estate (2002-2006)	<u>\$626,374,165</u>
Constitutional debt limit - 7% of Five-year Average Full Valuation of Taxable Real Estate	<u>\$ 43,846,192</u>
Indebtedness subject to constitutional debt limit:	
Governmental activities	(5,052,500)
Business-type activities	<u>(3,059,500)</u>
	<u>(8,112,000)</u>
 Net Debt Contracting Margin	 <u>\$ 35,734,192</u>
 Percentage of Debt Contracting Power Exhausted	 <u>18.50%</u>

Governmental Activities - Additional Debt Disclosures:

General Obligation Bonds

<u>Description</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retired</u>	<u>End of Year</u>
1994 Public Improvement	-	5.8%	\$ 1,700,000	\$ -	\$ (1,700,000)	\$ -
1991 Public Improvement	2015	7.0%	300,000	-	(42,500)	257,500
2006A Bond Refunding	2019	3.5%-4.5%	-	2,765,000	(365,000)	2,400,000
1999 Public Improvement	2019	5.5%	1,520,000	-	(1,080,000)	440,000
2000 Public Improvement	2020	6.0%	1,450,000	-	(950,000)	500,000
2006C Bond Refunding	2020	3.5%-4.0%	-	865,000	(20,000)	845,000
			<u>\$ 4,970,000</u>	<u>\$ 3,630,000</u>	<u>\$ (4,157,500)</u>	<u>\$ 4,442,500</u>

Notes Payable and Obligations Under Capital Leases

As of December 31, 2006, notes payable and obligations under capital leases were comprised of the following:

Notes Payable:

Note payable to City of Jamestown, NY Board of Public Utilities, payable \$7,902 per month including interest at 4.0% through December 2021.	\$ 1,068,327
Note payable to City of Jamestown, NY Board of Public Utilities, payable \$630 per month including interest at 4.0% through June 2024.	95,068
Note payable to City of Jamestown, NY Board of Public Utilities, payable \$230 per month including interest at 4.0% through December 2014.	18,876
Note payable to New York State Police and Fire Retirement System, payable \$80,056 per year including interest at 5.0% through December 2013.	517,420
Note payable to New York State Police and Fire Retirement System, payable \$51,954 per year including interest at 5.0% through December 2014.	369,279

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (CONT'D)

Governmental Activities - Additional Debt Disclosures (Cont'd):

Notes Payable and Obligations Under Capital Leases (Cont'd)

Note payable to New York Power Authority (NYPA), issued via the Board of Public Utilities, payable \$23,787 per month including interest at 3.71%, beginning June 2007 through May 2017. Principal and interest payments included in the Debt Service Requirements schedule are based upon total anticipated loan proceeds of \$2,381,738 of which \$1,670,729 was outstanding as of December 31, 2006. 1,670,729

Equipment note payable, payable \$36,067 per quarter including interest at 3.4% through May 2013. 822,682

Obligations Under Capital Leases:

Capital lease obligation for parking ramps, payable \$50,360 per month including interest at 5.9% through February 2030. Secured by parking ramps. 7,640,000

Capital lease obligation for equipment, payable \$1,579 per month including interest at 7.2% through October 2008. Secured by computer equipment. 33,601

Capital lease obligation for equipment, payable \$221 per month without interest through December 2008. Secured by postage machine. 5,304
\$ 12,241,286

Bond Anticipation Note

3.68% Bond Anticipation Note, Due December 21, 2007 \$ 610,000

Compensated absences

As explained in Note 1, compensated absences for employees who have attained age 55 and are participants in the NYS Employees Retirement System and employees with twenty years of service who are participants in the NYS Police and Fire Retirement System are included as a liability in the government-wide financial statements. The Governmental funds include as an expenditure, matured compensated absences which are payable to currently terminating employees.

Governmental-activities Debt Service Requirements

The annual debt service requirements to maturity for general obligation bonds, notes payable (including anticipated draws from NYPA of \$711,009 during 2007), and capital lease obligations as of December 31, 2006 are as follows:

Year	<u>General Obligation Bonds</u>		<u>Notes/Capital Lease Obligations</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 707,500	\$ 202,172	\$ 571,520	\$ 599,242	\$ 1,279,020	\$ 801,414
2008	742,500	165,916	674,860	610,106	1,417,360	776,022
2009	717,500	127,915	685,826	582,830	1,403,326	710,745
2010	725,000	91,750	716,240	554,714	1,441,240	646,464
2011	305,000	60,015	742,506	524,701	1,047,506	584,716
2012-2016	1,005,000	147,685	3,463,151	2,152,387	4,468,151	2,300,072
2017-2021	240,000	20,600	2,148,192	1,497,461	2,388,192	1,518,061
2022-2026	-	-	2,080,000	919,170	2,080,000	919,170
2027-2030	-	-	1,870,000	231,000	1,870,000	231,000
Totals	<u><u>\$ 4,442,500</u></u>	<u><u>\$ 816,053</u></u>	<u><u>\$12,952,295</u></u>	<u><u>\$ 7,671,611</u></u>	<u><u>\$17,394,795</u></u>	<u><u>\$ 8,487,664</u></u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (CONT'D)

Business-type Activities - Additional Debt Disclosures:

Bonds and Notes Payable

<u>Description</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retired</u>	<u>End of Year</u>
Electric:						
Improvement Bond	2009	4.85-5.00%	\$23,525,000	\$ -	\$(19,530,000)	\$ 3,995,000
Improvement Bond	2009	6.00-6.10%	855,000	-	(715,000)	140,000
Improvement Bond	2016	7.00%	6,375,000	-	(657,500)	5,717,500
2006 Bond Refunding	2019	4.00-5.00%	-	20,235,000	(345,000)	19,890,000
Improvement Bond	2025	4.13-5.00%	5,000,000	-	(250,000)	4,750,000
District Heating:						
Improvement Bond	2006	7.50%	250,000	-	(250,000)	-
Bond Anticipation Note	2006	2.58%	840,000	-	(840,000)	-
Improvement Bond	2026	4.00-5.00%	-	800,000	-	800,000
Waste Water:						
Improvement Bond	2007	8.70%	185,000	-	(100,000)	85,000
NYS Environmental Facilities	2012	4.25-6.65%	2,120,000	-	(285,000)	1,835,000
NYS Environmental Facilities	2012	5.70-6.50%	439,000	-	(57,000)	382,000
Improvement Bond	2013	7.00%	200,000	-	(25,000)	175,000
			<u>\$39,789,000</u>	<u>\$21,035,000</u>	<u>\$(23,054,500)</u>	<u>\$37,769,500</u>

Business-type Activities Debt Service Requirements

The annual debt service requirements to maturity for business-type activities general obligation bonds and notes as of December 31, 2006 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,699,500	\$ 1,815,596	\$ 4,515,096
2008	2,678,500	1,649,282	4,327,782
2009	2,876,500	1,499,814	4,376,314
2010	2,964,000	1,340,658	4,304,658
2011	3,048,000	1,183,905	4,231,905
2012-2016	14,018,000	3,779,825	17,797,825
2017-2021	8,210,000	1,048,456	9,258,456
2022-2026	<u>1,275,000</u>	<u>155,775</u>	<u>1,430,775</u>
Totals	<u>\$37,769,500</u>	<u>\$12,473,311</u>	<u>\$50,242,811</u>

NOTE 6 - PENSION PLANS AND POST-EMPLOYMENT BENEFITS

General Information

The City participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). These are cost sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLANS AND POST-EMPLOYMENT BENEFITS (CONT'D)

Plan Descriptions

Employees Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained in writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Local Police and Fire Retirement System (PFRS)

The New York State and Local Police and Fire Retirement System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained in writing to the New York State and Local Police and Fire Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policies

The Systems are non-contributory except for employees who joined the New York State and Employees Retirement System (ERS) after July 27, 1996, who are required to contribute 3% of their salary during their first ten years of employment. For the New York State and Local Employees Retirement System, the State Comptroller shall certify annually the rates expressed as proportions of members payroll, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>
	<u>NYS and Local Employees</u>	<u>NYS and Local Police and Fire</u>	<u>NYS and Local Employees</u>
2006	\$ 507,955	\$1,357,896	\$ 734,243
2005	\$ 708,913	\$1,055,980	\$ 904,008
2004	\$ 708,778	\$1,244,339	\$ 962,872

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

Post-Employment Benefits

In addition to pension benefits described above, the City provides post-employment benefit options for health care and dental insurance to eligible employees, terminated employees, and their dependents. The benefits are provided in accordance with City ordinances, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include years of service, employee age, and disability due to line of duty. The City funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the City subsidizing the remaining costs.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLANS AND POST-EMPLOYMENT BENEFITS (CONT'D)

Post-Employment Benefits (Cont'd)

For the year ended December 31, 2006 post-employment health care expense (net of participant contributions) totaled \$2,171,432. For the year ended December 31, 2006, there were 333 participants enrolled in the program. The City recognizes post-employment health care costs as eligible retiree claims are paid.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by independent plan administrators through administrative service agreements. The Plan, available to all eligible City employees, permits employees to defer a portion of their salary until termination, retirement, death or unforeseeable emergency.

NOTE 7 - INTERFUND ACTIVITY OF GOVERNMENTAL FUNDS

The governmental funds include the following interfund activity as of and for the year ended December 31, 2006 follows:

	<u>Due From</u>	<u>Due To</u>	<u>Transfer-In</u>	<u>Transfer-Out</u>
General Fund	\$ 346,105	\$ 916,113	\$ 250,000	\$ -
Capital Projects Fund	346,061	30,438	-	250,000
Trust and Agency Fund	214,758	-	-	-
Special Revenue Fund:				
Special Revenue Fund	355,294	148,000	-	-
Department of Development	-	167,667	-	-
	<u>\$1,262,218</u>	<u>\$1,262,218</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

Interfund balances and activity are eliminated in the government-wide financial statements.

NOTE 8 - RESERVED FUND EQUITY

Reservations of equity reflect amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated by the account title on the face of the balance sheet.

NOTE 9 - FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - GENERAL FUND BUDGET AMENDMENTS

Original budget	\$27,896,549
Amendments:	
General Government Support	186,285
Public Safety	32,400
Streets	116,274
Culture and Recreation	67,622
Capital Outlays	154,437
Employee Benefits	164,585
Debt Service - principal	485,000
Debt Service - interest	<u>(116,900)</u>
Total amendments	<u>1,089,703</u>
 Revised budget	 <u>\$28,986,252</u>

NOTE 11 - LITIGATION

The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 12 - BUSINESS-TYPE ACTIVITIES DISCLOSURES (Board of Public Utilities)

The Board of Public Utilities was established under Section 122 of the Jamestown City Code to supply the Jamestown, New York area, as well as other municipalities, with electricity, water, sewer, sanitation and district heating services.

General Disclosures

I. Post-Employment Medical Benefits

Description

The Board of Public Utilities provides substantially all of its employees with health care benefits from retirement until age 65. Post-employment medical benefits are provided to retirees and retirees' eligible dependents. Generally, coverage is provided for the employee and dependents from retirement through age 65. The accounting for these post-employment benefits is addressed in Statement of Financial Accounting Standards No. 106, "Employer's Accounting for Post-retirement Benefits Other Than Pensions." This standard requires the accrual method of accounting for post-employment health care and life insurance benefits based upon actuarially determined costs to be recognized over the period the employees provide service. These benefits had previously been recognized as expenses when paid.

Net periodic benefit cost for 2006 included the following components:

Service cost - benefits attributed to service during the period	\$ 245,434
Interest cost on accumulated post-employment benefit obligation	464,156
Amortization of unrecognized actuarial gain	<u>(34,139)</u>
Total periodic post-employment benefit cost	<u>\$ 675,451</u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BUSINESS-TYPE ACTIVITIES DISCLOSURES (Board of Public Utilities) (Cont'd)

I. Post-Employment Medical Benefits (Cont'd)

The Accumulated post employment obligation is included as a non-current liability in the Statement of Net Assets, and was computed as follows:

Accumulated Post Employment Obligation:

Balance, beginning of year	\$7,014,662
Service costs - benefits earned	245,434
Interest costs	464,156
Actuarial gain	(34,139)
Benefit payments	<u>(216,904)</u>
Balance, end of year	<u>\$7,473,209</u>

The accumulated post-employment benefit obligation was determined using a 7.0% discount rate. Health care cost were assumed to increase by 14% per year through 2005, then gradually decreasing to 5% per year by 2015. The health care trend rate assumption has a significant effect on the amounts reported. For example, a one percentage point increase in the health care trend rate would increase the accumulated post-employment benefit obligation and net periodic post retirement cost at December 31, 2006 by 10.7% and 25.8%, respectively.

II. Fair Value of Financial Instruments

Cash and cash equivalents

The carrying amount of cash and cash equivalents maintained by the City's business-type activities approximates fair value because of the short maturity of these financial instruments.

Note Receivable

The carrying amount of the note receivable maintained by the City's business-type activities approximates fair value because the interest rate charged approximates that available from other permissible investments.

Long-term Debt

The carrying amount of the long-term debt of the City's business-type activities approximates fair value because the interest rates currently in effect approximate those currently available through the City of Jamestown.

III. Deferred Charges

As of December 31, 2006, deferred charges were comprised of the following:

Unamortized debt issuance costs	\$1,178,866
Compensated absences	933,435
Costs of future rate case	<u>357,291</u>
	<u>\$2,469,592</u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BUSINESS-TYPE ACTIVITIES DISCLOSURES (Board of Public Utilities) (Cont'd)

IV. Supplemental Disclosure of Cash Flow Information

Cash payments for interest during the year	<u>\$1,749,710</u>
Non-cash transactions:	
Payment of debt issuance costs via issuance of refunding serial bonds and bond premium	<u>\$1,379,356</u>

Municipal Electric System Disclosures

I. Major Customer

The Municipal Electric System sells excess energy off-system, commonly referred to as inadvertent sales, to a major distributor of electricity, NYISO. Revenues received by the Electric System from this distributor amounted to approximately 16.4% and 16.9% of Electric System revenue for the years ended December 31, 2006 and 2005, respectively.

II. Miscellaneous Operating Reserves

During 2002, the Board of Public Utilities Municipal Electric System settled a long running dispute with the New York State Power Authority (PASNY) concerning overcharges for the cost of power purchased from PASNY since 1994. Subsequently, the Board of Public Utilities petitioned the Public Service Commission with a plan for payment of the termination fee and return of the net residual refund to customers.

- \$300,000 of the recovery was used to reimburse the Board of Public Utilities for the costs incurred in achieving the settlement. The remainder of the settlement was set aside in various funds to provide future benefits to customers. Approximately \$3.4 million was placed into a rate stabilization fund to postpone rate increases. The fund was exhausted in mid-2005.
- \$600,000 was placed into an Economic Development Fund. The purpose of this fund is to provide funding to improve infrastructure and build line extensions for new loads.

Because these funds were all collected from customers in prior years, the Board of Public Utilities is accruing interest on the amounts not refunded at 3.25% per annum.

Included in the rate structure placed in service as of November 1, 2005, was an allowance to fund post-retirement benefits earned. Subsequent to enactment of the rate, the regulator determined that this allowance was excessive. As a result, the amount collected for these benefits in excess of the amounts actually expended for the benefits has been deferred until such time as the regulator determines their disposition. Interest has been added to these funds at the average investment return earned by the Board of Public Utilities during the year.

At December 31, 2006, miscellaneous operating reserves were comprised of the following:

Rate Stabilization Fund	\$ 1,097,406
Economic Development Fund	644,160
Post-retirement benefit over collection	<u>241,123</u>
Total Miscellaneous Operating Reserves	<u>\$ 1,982,689</u>

CITY OF JAMESTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - BUSINESS-TYPE ACTIVITIES DISCLOSURES (Board of Public Utilities) (Cont'd)

Municipal Electric System Disclosures (Cont'd)

III. Contingencies

The Municipal Electric System has received notice of potential liability for a contribution toward clean up costs for two super fund sites. Transformer carcasses, previously owned by the Electric System were shipped to these sites for disposal. Although the Electric System potentially has joint responsibility for additional contributions to these sites, management believes that any additional liability would not have a material effect on operations.

IV. Derivative and Hedge Activity Accounting

Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activity* became effective for the System on January 1, 2001. This pronouncement requires that all derivative financial instruments be reported on the balance sheet at fair value.

All derivative instruments held by the System are designed as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, gains and losses arising from changes in derivative fair values are deferred until the underlying transaction occurs. These derivative positions are settled either when the underlying transaction occurs or is no longer expected to occur, with any resultant gain or loss recognized in the statement of operations.

The effectiveness of the hedge is measured by an historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in the value of the hedged item. If correlation ceases to exist, hedge accounting will be terminated and gains and losses immediately recorded as income or expense. To date, high correlation has been achieved.

V. Derivative Financial Instruments and Hedging Activities

The Municipal Electric System's activities expose it to a variety of market risks, which are continuously monitored and managed by the System's management as an integral part of its operations. To hedge the market risk and eliminate volatility in the prices for natural gas, the System uses derivative instruments in the form of futures and options contracts. At December 31, 2006, the System had no outstanding commitments to purchase any Dth of natural gas on contracts expiring subsequent to year end.

CITY OF JAMESTOWN, NEW YORK

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Real property taxes	\$12,268,125	\$12,268,125	\$12,270,605	\$ 2,480
Real property tax items	227,000	227,000	211,387	(15,613)
Non-property tax items	5,624,000	5,624,000	5,685,766	61,766
Departmental income	811,500	823,917	938,808	114,891
Intergovernmental charges	120,000	120,000	128,163	8,163
Use of money and property	175,000	245,000	276,259	31,259
Licenses and permits	153,500	153,500	161,947	8,447
Fines and forfeitures	180,000	180,000	158,597	(21,403)
Other unclassified revenue	25,000	25,000	10,676	(14,324)
Board of Public Utilities (PILOT)	3,365,000	3,365,000	3,412,408	47,408
Refund of prior year expenditures	50,000	91,790	130,455	38,665
State aid	<u>4,449,000</u>	<u>5,414,496</u>	<u>5,465,154</u>	<u>50,658</u>
Total revenues	<u>27,448,125</u>	<u>28,537,828</u>	<u>28,850,225</u>	<u>312,397</u>
Expenditures:				
General government support	\$ 3,349,750	\$ 3,536,035	\$ 3,247,385	\$ 288,650
Public safety	9,764,822	9,797,222	9,734,666	62,556
Streets	2,237,444	2,353,718	2,388,583	(34,865)
Culture and recreation	1,802,728	1,870,350	1,864,028	6,322
Home and community services	691,300	691,300	691,000	300
Capital outlays	580,000	734,437	734,437	-
Employee benefits	7,612,700	7,777,285	7,753,419	23,866
Debt service-principal	982,082	1,467,082	1,467,082	-
Debt service-interest	<u>875,723</u>	<u>758,823</u>	<u>761,233</u>	<u>(2,410)</u>
Total expenditures	<u>27,896,549</u>	<u>28,986,252</u>	<u>28,641,833</u>	<u>344,419</u>
Excess (deficiency) of revenues over expenditures	<u>(448,424)</u>	<u>(448,424)</u>	<u>208,392</u>	<u>656,816</u>
Other Sources:				
Transfers in	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total other sources	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures	(198,424)	(198,424)	458,392	656,816
Fund balance, beginning of year	<u>1,669,101</u>	<u>1,669,101</u>	<u>1,669,101</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,470,677</u>	<u>\$ 1,470,677</u>	<u>\$ 2,127,493</u>	<u>\$ 656,816</u>

See accompanying notes to financial statements.

CITY OF JAMESTOWN, NEW YORK

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006**

	<u>Special Revenue</u>	<u>Department of Development</u>	<u>Risk Retention</u>	<u>Totals</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 13,988	\$ 2,019,450	\$ 186,424	\$ 2,219,862
Accounts receivable	-	7,979	-	7,979
Due from other funds	355,294	-	-	355,294
Due from other governments	246,128	17,000	-	263,128
Loans receivable, (less allowance for loss of \$839,025)	-	3,049,718	-	3,049,718
Real property held for sale	<u>-</u>	<u>227,643</u>	<u>-</u>	<u>227,643</u>
 Total assets	 <u>\$ 615,410</u>	 <u>\$ 5,321,790</u>	 <u>\$ 186,424</u>	 <u>\$ 6,123,624</u>
<u>Liabilities and Fund Balance</u>				
Liabilities:				
Account payable	\$ -	\$ 56,031	\$ -	\$ 56,031
Amounts held in escrow	-	1,760	-	1,760
Due to other funds	148,000	167,667	-	315,667
Deferred revenue	<u>467,410</u>	<u>161,261</u>	<u>-</u>	<u>628,671</u>
Total liabilities	<u>615,410</u>	<u>386,719</u>	<u>-</u>	<u>1,002,129</u>
<u>Fund Balance:</u>				
Reserved for:				
Economic development	-	4,935,071	-	4,935,071
Risk retention	<u>-</u>	<u>-</u>	<u>186,424</u>	<u>186,424</u>
Total fund balance	<u>-</u>	<u>4,935,071</u>	<u>186,424</u>	<u>5,121,495</u>
 Total liabilities and fund balance	 <u>\$ 615,410</u>	 <u>\$ 5,321,790</u>	 <u>\$ 186,424</u>	 <u>\$ 6,123,624</u>

See Report of Independent Auditor.

CITY OF JAMESTOWN, NEW YORK

**SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2006**

	<u>Special Revenue</u>	<u>Department of Development</u>	<u>Risk Retention</u>	<u>Totals</u>
Revenues:				
Departmental income	\$ -	\$ 490,354	\$ -	\$ 490,354
Use of money and property	210	277,207	7,036	284,453
Other revenue	114,506	276	-	114,782
Grants and contributions	-	25,000	-	25,000
Interfund revenues	22,000	270,000	-	292,000
Refund of prior year expenditures	-	20,108	-	20,108
State aid	544,271	44,105	-	588,376
Federal program income	-	12,589	-	12,589
Federal aid	<u>22,419</u>	<u>2,358,119</u>	<u>-</u>	<u>2,380,538</u>
Total revenues	<u>703,406</u>	<u>3,497,758</u>	<u>7,036</u>	<u>4,208,200</u>
Expenditures:				
General government support	-	905,541	-	905,541
Home and community	246,271	2,370,708	-	2,616,979
Capital expenditures	457,135	168,864	-	625,999
Bad debt expense	-	78,911	-	78,911
Other economic development	<u>-</u>	<u>132,690</u>	<u>-</u>	<u>132,690</u>
Total expenditures	<u>703,406</u>	<u>3,656,714</u>	<u>-</u>	<u>4,360,120</u>
Excess (deficiency) of revenues over expenditures	-	(158,956)	7,036	(151,920)
Fund balance, beginning of year	<u>-</u>	<u>5,094,027</u>	<u>179,388</u>	<u>5,273,415</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 4,935,071</u>	<u>\$ 186,424</u>	<u>\$ 5,121,495</u>

See Report of Independent Auditor.

CITY OF JAMESTOWN, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct Programs:		
Community Development Block Grant	14.218	\$1,575,380
Home Investment Partnership Program (HOME)	14.239	<u>787,110</u>
Total U.S. Department of Housing and Urban Development		<u>\$2,362,490</u>
<u>Appalachian Regional Commission</u>		
Direct Program:		
Appalachian Regional Commission Grant	23.002	\$ 8,218
Total Appalachian Regional Commission		<u>\$ 8,218</u>
<u>U.S. Department of Justice</u>		
Direct Programs:		
Secure Our Schools Act	16.710	\$ 10,029
Total U.S. Department of Justice		<u>\$ 10,029</u>
<u>Federal Emergency Management Agency</u>		
Direct Program:		
Assistance to Firefighters Grant Program	83.554	\$ 12,390
Total Federal Emergency Management Agency		<u>\$ 12,390</u>
Total Federal Expenditures		<u><u>\$2,393,127</u></u>

SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the City's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

CITY OF JAMESTOWN, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2006**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness identified?

 Yes

 X No

Significant deficiency identified not considered to be a material weakness?

 Yes

 X None Reported

Noncompliance material to financial statements noted?

 Yes

 X No

Federal Awards

Internal Control over major programs:

Material weakness identified?

 Yes

 X No

Significant deficiency identified not considered to be a material weakness?

 Yes

 X None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

 Yes

 X No

Identification of major program:

CFDA Number

14.218

14.239

Name of Federal Program

Community Development Block Grant

HOME Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs?

\$300,000

Auditee qualified as low-risk auditee?

 X Yes

 No

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

CITY OF JAMESTOWN, NEW YORK

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2006**

There were no audit findings noted for the year ended December 31, 2005.

**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 City Council
City of Jamestown, New York

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Jamestown, New York, as of and for the year ended December 31, 2006, which collectively comprise the City of Jamestown, New York's basic financial statements and have issued my report thereon dated September 14, 2007. I conducted the 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.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Jamestown, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Jamestown, New York's financial statements that is more than inconsequential will not be prevented or detected by the City of Jamestown, New York's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jamestown, New York's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted other matters that I reported to management of the City of Jamestown, New York, in a separate letter dated September 14, 2007.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Though restricted in use, reports issued in connection with an audit of a local government may be a matter of public record.


JOHN S. TRUSSALO, CPA, P.C.
September 14, 2007

**Report on Compliance With Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the City Council
City of Jamestown, New York

Compliance

I have audited the compliance of the City of Jamestown, New York, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. City of Jamestown, New York's major federal programs are identified in the summary of auditor's 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 Jamestown, New York's management. My responsibility is to express an opinion on the City of Jamestown, New York's compliance based on my audit.

I conducted the 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 I 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 includes examining, on a test basis, evidence about City of Jamestown, New York's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Jamestown, New York's compliance with those requirements.

In my opinion, City of Jamestown, New York, 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 December 31, 2006.

Internal Control Over Compliance

The management of City of Jamestown, 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 my audit, I considered the City of Jamestown, 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Jamestown, New York's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Though restricted in use, reports issued in connection with an audit of a local government may be a matter of public record.


JOHN S. TRUSSALO, CPA, P.C.
September 14, 2007