

CITY OF OLEAN, NEW YORK

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

***FOR THE
FISCAL YEAR ENDED MAY 31, 2014
WITH INDEPENDENT AUDITORS' REPORT***

CITY OF OLEAN, NEW YORK

MAY 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Government-wide Financial Statements	
Statements of Net Position	11
Statements of Activities.....	12
Financial Statements	
Combined Balance Sheets - All Governmental Funds.....	13
Combined Statements of Revenue, Expenditures and Changes in Fund Equity - All Governmental Funds.....	14
Statement of Revenue and Expenditures Budget and Actual – General Fund.....	15
Statement of Revenue and Expenditures Budget and Actual – Special Revenue Funds.....	16
Statement of Revenue and Expenditures Budget and Actual-Debt Service Fund.....	17
Statements of Net Position-Fiduciary Fund.....	18
Reconciliation of Governmental Balance Sheet to the Statement of Net Position.....	19
Reconciliation of Governmental Funds Revenue, Expenditures and Changes in Fund Equity to the Statement of Activities.....	20
Notes to the Financial Statements	21-38
Supplementary Information	
General Fund	
Comparative Balance Sheets – General Fund.....	39
Comparative Statements of Revenues, Expenditures And Changes In Fund Equity – General Fund.....	40
Special Revenue Funds	
Combining Balance Sheet – All Special Revenue Funds.....	41
Combining Schedule of Revenues, Expenditures And Changes In Fund Equity – All Special Revenue Funds.....	42
Comparative Balance Sheets – Special Revenue Funds.....	43
Comparative Statements of Revenues, Expenditures And Changes In Fund Equity – Special Revenue Funds.....	44

CITY OF OLEAN, NEW YORK

MAY 31, 2014

TABLE OF CONTENTS

Supplementary Information (continued)

Water Fund

Comparative Balance Sheets – Water Fund.....45
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – Water Fund.....46
Statement of Revenues and Expenditures
– Budget and Actual – Water Fund.....47

Sewer Fund

Comparative Balance Sheets – Sewer Fund.....48
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – Sewer Fund.....49
Statement of Revenues and Expenditures
– Budget and Actual – Sewer Fund.....50

Revolving Loan Fund

Comparative Balance Sheets – Revolving Loan Fund.....51
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – Revolving Loan Fund.....52

Housing Rehabilitation Fund

Comparative Balance Sheets – Housing Rehabilitation Fund.....53
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – Housing Rehabilitation Fund.....54

First Time Homebuyers Fund

Comparative Balance Sheets – First Time Homebuyers Fund.....55
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – First Time Homebuyers Fund.....56

Capital Projects Fund

Comparative Balance Sheets – Capital Projects Fund.....57
Comparative Statements of Revenues, Expenditures
And Changes in Fund Equity – Capital Projects Fund.....58
Balance Sheet – Capital Projects Fund – By Project.....59
Schedule of Expenditures – Capital Projects Fund – By Project.....60

Debt Service Fund

Comparative Balance Sheets – Debt Service Fund.....61
Comparative Statements of Revenues, Expenditures
And Changes In Fund Equity – Debt Service Fund.....62

CITY OF OLEAN, NEW YORK

MAY 31, 2014

TABLE OF CONTENTS

Supplementary Information (continued)

Agency Fund

Comparative Balance Sheets – Agency Fund.....63
Schedule of Cash Receipts, Disbursements and Balances
– Agency Fund.....64

Other Schedules

Schedule of Funding Progress.....65

**Independent Auditor’s 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”..... 66-67**

Schedule of Findings and Questioned Costs.....68-71

State Transportation Assistance:

Schedule of State Transportation Assistance Expended72
Notes to Schedule of State Transportation Assistance Expended73

**Independent Auditor’s Report on Compliance and Controls Over State Transportation Assistance
Expended Based on an Audit of Financial Statements Performed in Accordance with
“Government Auditing Standards”.....74-75**

Schedule of Findings and Questioned Costs-State Transportation for Assistance Expended76

Summary of Schedule of Audit Findings-State Transportation for Assistance Expended77-78

Management Letter.....79-82

Statistical Information

General Governmental Expenditures by Function
– Last Ten Fiscal Years.....83
General Governmental Revenues by Source – Last Ten Fiscal Years84
Fund Balance History – General Fund – Last Ten Fiscal Years.....85
Assessed and Equalized Full Value of Taxable Property
– Last Ten Fiscal Years.....86
Ratio of General Bonded Debt to Assessed Value and Net
Bonded Debt Per Capita – Last Ten Fiscal Years.....87
Ratio of General Obligation Debt Service to Total General
Expenditures – Last Ten Fiscal Years.....88
Principal Taxpayers.....89
Principal Employers.....90



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Olean, New York* as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the fiduciary funds of the *City of Olean, New York* in the accompanying and individual fund statements as of and for the year ended May 31, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

As described in Note 1 to the financial statements, general fixed assets and infrastructure are reported at estimated historical costs as required by accounting principles generally accepted in the United States of America. However, although the City conducted an independent appraisal of its fixed assets in 2009, an evaluation and reconciliation of the appraisal to the recorded costs has not been performed and therefore, the reasonableness of the recorded costs could not be verified.

Qualified Opinion

In our opinion, except for the effects of the recorded cost of the City's fixed assets and infrastructure as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **City of Olean, New York** as of May 31, 2014, and the results of the respective changes in financial position and the budgetary comparison for the general fund, special revenue funds, and debt service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the **City of Olean, New York's** May 31, 2013 financial statements, and our report dated January 8, 2014, expressed modified opinions on the respective financial statements of the governmental activities and each major fund financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **City of Olean's** basic financial statements as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information outlined in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information outlined in the table of contents are fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying schedule of expenditures of New York State Department of Transportation assistance as listed in the table of contents is presented for the purpose of additional analysis as required by the New York State Department of Transportation Draft Part 43 of the New York State Codification of Rules and Regulations, and is not a required part of the basic financial statements. This schedule is the responsibility of the County's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of the **City of Olean, New York's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **City of Olean, New York's** internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 8, 2014**

I. Discussion and Analysis

The following is a discussion and analysis of the *City of Olean, New York's* (the City) financial performance for the fiscal year ended May 31, 2014. The section is a summary of the City's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the City's financial statements, which immediately follows this section.

II. Financial Highlights

The following items are the financial highlights experienced by the City of during the fiscal year ended May 31, 2014:

- Overall net position of the City increased during the current year in the amount of \$1,463,000, as compared to an increase of \$3,166,000 during the prior fiscal year.
- Total net position of the City as of May 31, 2014 amounted to approximately \$35,884,000.
- The City's total revenue decreased approximately 3% from \$24,896,000 during the fiscal year ended May 31, 2013 to \$24,056,000 during the fiscal year ended May 31, 2014. This decrease was primarily the result of decreases in real estate taxes and capital grants and contributions which were partially offset by an increase in charges for services in the water and sewer fund.
- The City's total expenses increased approximately 4% from \$21,730,000 during fiscal year ended May 31, 2013 to \$22,593,000 during the fiscal year ended May 31, 2014. This increase was primarily related to increases in transportation, home and community services, public safety and state retirement costs.
- The City incurred capital costs in the amount of approximately \$5,204,000 primarily related to the purchase of new vehicles, other general equipment, work performed on the Downtown Facilities Upgrade, Bradner Stadium Project, roadways and other miscellaneous capital projects.
- The general fund reported an overall fund balance of approximately \$3,191,000 as of May 31, 2014.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Position

The Statement of Net Position (Page 11) shows the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

2. Statement of Activities

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

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

**III. Overview of the Financial Statements
(continued)**

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

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

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

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or major funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the City's operations, and the existence of legal budget requirements.

**III. Overview of the Financial Statements
(continued)**

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

The City has two kinds of funds:

1. Governmental Funds

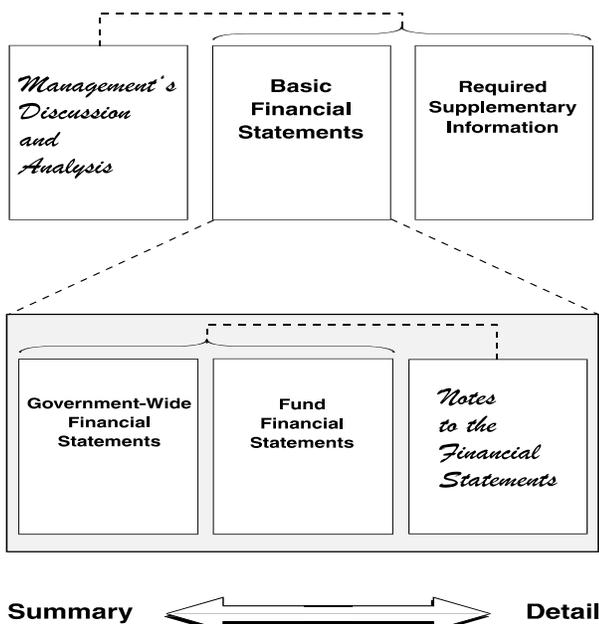
Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending.

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

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

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

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



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

Changes in Net position

The City's total government-wide revenue was \$24,056,000. Approximately 29%, 19%, and 41% of total revenue is derived from the property taxes, non-property taxes and program revenue, respectively. The remaining 11% comes from state sources, use of money and property, sales of property and compensation for loss and other revenue sources.

The total cost of all programs and services of the City was \$22,593,000 for the fiscal year ended May 31, 2014. The City's expenses cover a range of services, with 10%, 26%, 15%, and 22% related to general government support, public safety, transportation and employee benefits, respectively. Figure A-4 through Figure A-6 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

Revenue

- Property tax revenue represents approximately 29% of the City's total revenue for governmental activities. Total property taxes decreased approximately \$115,000 or 2% during the current fiscal year. The City budgeted for a small decrease in property taxes in 2013-14.
- One of the City's most significant general revenue is non-property taxes, which represents \$4,654,000 or of total governmental revenue. Total non-property taxes increased approximately \$4,000 or 0% as a result of an overall increase in sales and use tax revenues.
- The City's program revenue totaled approximately \$9,907,000. Program revenue consists of charges for services in the amount of \$8,604,000, which is primarily related to revenue received in the special revenue funds of approximately \$7,088,000. These revenues relate to water and sewer usage fees and program income related to the City's three community development programs. The City received operating grants in the amount of \$599,000, which relate to grants including the operation of the local OATS bus, federal Section 5311 funding, court facilities and security, and the youth bureau; and capital grants and contributions in the amount of \$704,000, which consists of grants related to the City's capital project funds. These projects include federal and state grants for the airport improvements (FAA and NYS DOT), CHIPS program (NYS DOT and Marchesilli), and the Downtown Facilities Upgrade and Bradner Stadium projects.

III. Overview of the Financial Statements
(continued)

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

2. Fiduciary Funds

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

IV. Financial Analysis of the City as a Whole

Net Position

The City's total reporting entity net position increased \$1,463,000 or 4%. The components of net position include: invested in capital assets, net of related debt of \$30,781,000; restricted net position of \$2,672,000; and unrestricted net position of \$2,431,000 as of May 31, 2014.

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

Revenue (continued)

Total charges for services increased approximately 5% during the current fiscal year as a result of increases in usage in the water and sewer funds. Total operating grants increased approximately 27% during the current fiscal year, as a result of state Mass Transit funding utilized for the purchase of new buses. Lastly, capital grants and contributions decreased approximately 62% during the current year, which was primarily related to East State Street and East End Sewer grant funding received in the prior year.

Expenses

Figure A-6 presents the cost of each of the expenditure-types, which include; general governmental support, public safety, health, transportation, culture and recreation, economic development, home and community services, employee benefit and debt service. The net cost shows the financial burden that was placed on the City's taxpayers and NYS by each of these functions. Total costs of the City's governmental activities were approximately \$22,593,000.

- The City's general governmental support was approximately \$2,265,000 or 10% of expenditures. These expenditures consist primarily of the City's main support service departments such as central garage, buildings department, clerk's office, public works department, outside professional fees and related fees and the City's general liability insurances. Total general governmental support expenses decreased approximately 10% in part due to a decrease in spending related to capital and central garage costs.
- The City's public safety costs were approximately \$5,919,000 or 26% of total expenditures. These expenditures consist primarily of costs attributable to the fire and police departments. Total costs for public safety increased 3% during the current year, due to increases in police department and fire department payroll and overtime costs.

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

Expenses (continued)

- Transportation costs of the City were approximately \$3,334,000 or 15% of total expenditures. These expenditures encompass the street maintenance department including maintenance and snow removal, the airport department and street lighting expenditures. Total transportation costs increased approximately 28% during the current year due to an increase in city-wide street and road repairs.
- The City's culture and recreation costs were approximately \$896,000 or 4% of total expenditures. These expenditures consist primarily of costs of maintaining the City's parks, playgrounds and recreational facilities and programs. Total expenses for culture and recreation decreased approximately 15% which was primarily related to a decrease in costs associated with stadium repairs and park maintenance costs.
- Home and community services costs were approximately \$4,376,000 or 19% of total expenditures. These expenditures are related to costs of the water and sewer funds and costs related to homebuyer and other community development projects. Total home and community services expenditures increased approximately 7% which was related to increases in the water and sewer fund expenses.
- Employee benefit costs were approximately \$4,859,000 or 22% of total expenditures. These expenditures consist primarily of social security benefits, health insurance benefits, workmen's compensation benefits and pension costs. Total employee benefit costs decreased approximately 3% during the current fiscal year primarily as a result of a decrease in health insurance costs.
- During the current fiscal year, the City had debt service costs of \$810,000. These costs were primarily related to the current fiscal year interest payments on long-term debt for the water treatment facility and the City's two reservoirs. These costs also include interest payments on serial bonds for other city public improvement projects.

Figure A-3 – Condensed Statement of Net Position

<i>City of Olean, New York</i> Condensed Statement of Net Position As of May 31, 2014 (in thousands of dollars)			
	2014	2013	Change
Assets			
Current and other assets	\$ 14,422	\$ 17,976	-20%
Capital Assets	55,033	51,700	6%
Total assets	\$ 69,455	\$ 69,676	0%
Liabilities			
Other liabilities	\$ 2,236	\$ 2,151	4%
Long-term debt outstanding	26,555	28,182	-6%
Total liabilities	28,791	30,333	-5%
Deferred inflows of Resources			
Taxes collected for subsequent year	4,780	4,923	0%
Net Position			
Net investment in capital assets	30,781	26,243	17%
Restricted	2,672	4,208	-36%
Unrestricted	2,432	3,970	-39%
Total net position	35,884	34,421	4%
Total liabilities and net position	\$ 69,455	\$ 69,676	0%

Figure A-4 – Condensed Statement of Activities

<i>City of Olean, New York</i> Condensed Statement of Activities For the Year Ended May 31, 2014 (in thousands of dollars)			
	2014	2013	Change
Revenue			
Program Revenue			
Charges for services	\$ 8,604	\$ 8,233	5%
Operating grants	599	473	27%
Capital grants & contributions	704	1,843	-62%
General Revenue			
Real property taxes	7,002	7,117	-2%
Special assessment tax - real property	15	15	-3%
Real property tax items	132	146	-10%
Non-property tax items	4,654	4,649	0%
Use of money and property	8	16	-50%
Miscellaneous local sources	-	-	100%
State aid	2,338	2,404	-3%
Total revenue	24,056	24,896	-3%
Expenses			
General government support	2,265	2,522	-10%
Public safety	5,919	5,723	3%
Health	134	37	262%
Transportation	3,334	2,599	28%
Economic development	-	8	0%
Culture and recreation	896	1,051	-15%
Home and community services	4,376	4,085	7%
Employee benefits	4,859	4,999	-3%
Debt service	810	706	15%
Total expenses	22,593	21,730	4%
Change in net position	\$ 1,463	\$ 3,166	

Figure A-5 – Governmental Sources of Revenue

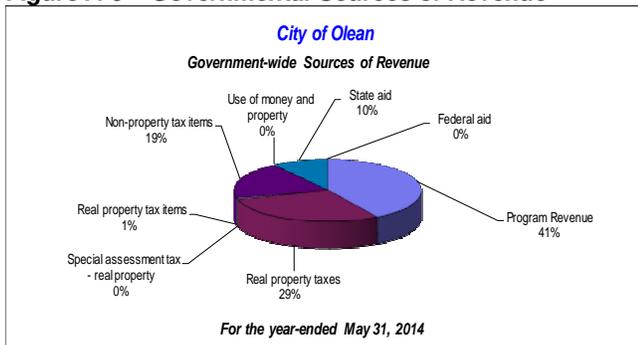
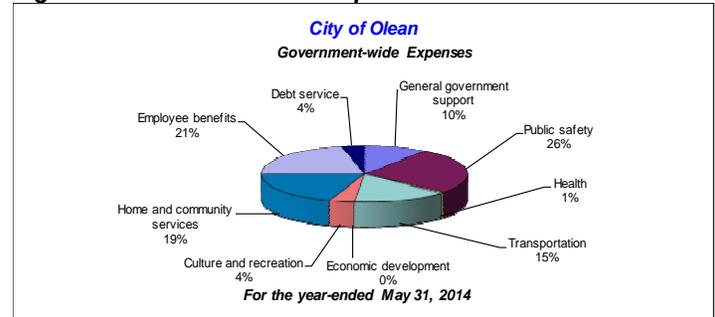


Figure A-6 – Governmental Expenses



V. Financial Analysis of the City's Funds

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

General Fund

- The City's general fund expenditures and other sources exceeded its revenue and other uses by approximately \$1,285,000 during the year ended May 31, 2014.
- The City's general fund unassigned fund balance equated to approximately \$2,780,000 as of May 31, 2014.
- The City had an assigned fund balance as of May 31, 2014, which approximated \$411,000.
- The total assets for the City's general fund were \$9,622,000 which decreased approximately \$1,107,000 during the current year, primarily related to a decrease in cash balances, which were partially offset by an increase in due from federal government as of May 31, 2014. The City's general fund liabilities and deferred inflows of resources as of May 31, 2014 were \$6,431,000 which decreased approximately \$178,000 during the current fiscal year, primarily related to a decrease in deferred inflows of resources from real estate taxes.

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

General Fund (continued)

- The City's total revenue and other sources in the general fund increased approximately \$22,000 or 0% during the current year as a result of increases in NYS Mass Transit and increases in court security revenue. These increases were partially offset by decreases in revenue associated with Federal OATS bus funding and mortgage tax revenue. Total expenditures and other uses in the general fund increased approximately \$39,000 or 0% which was primarily related to an increase in transportation expenses related to road projects and an increase in interfund transfers to the debt service fund. These increases were partially offset by a decline in the amount transferred to the capital projects fund in the current year as compared with the prior year.

Special Revenue Fund

- The City's special revenue consisted of the following funds; water fund, sewer fund, revolving loan fund, housing fund and first time homebuyers' fund.
- Current year revenue and other sources in the special revenue fund was \$7,088,000 which increased \$410,000 primarily related to increases in departmental income in both the water and sewer funds related to higher rates. Total expenditures and other uses were \$7,390,000 which increased \$1,378,000. This increase is primarily related to current year increases in water and sewer fund expenditures and increases in transfers to debt service fund.

Debt Service Fund

- The City's current fiscal year revenue and other sources were \$2,705,000 which increased approximately \$1,003,000 and was related to more transfers in from the general, water and sewer funds. Expenditures during the current year amounted to \$2,543,000 which increased approximately \$501,000. This increase was primarily the result of the City terming its short-term debt into serial bonds, along with a refinancing of bonds in the prior year, resulting in savings.

Capital Projects Fund

- During the current year, the City incurred total costs in the capital projects fund in the amount of \$4,638,000. Such costs were primarily related to costs associated with the Bradner Stadium (\$1,085,000), Downtown Facilities Upgrade (\$659,000), Vehicle Replacement (\$613,000), and the CHIPS program (\$815,000).

VI. General Fund Budgetary Highlight

As shown in figure A-7, over the course of the year, the City makes many budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$845,000 above the revised budget. The most significant variance was in the area of transfers to other funds and transportation which were over budget by approximately \$1,042,000 and \$225,000, respectively. The City's general government support, employee benefits and culture and recreation expenditures were approximately \$102,000, \$88,000 and \$173,000 below the amount budgeted. On the other hand, resources available for appropriations were approximately \$63,000 below the final budgeted amount. Significant variance of revenue items consisted of departmental income and non-property tax items that were approximately \$163,000 and \$56,000, respectively, below that budgeted. The City's intergovernmental charges were approximately \$161,000 above the budgeted amount.

VII. Capital Asset and Debt Administration

Capital Assets

As of May 31, 2014, the City had a net investment of \$55,033,000 in a broad range of capital assets, including reconstruction projects, transportation vehicles and other equipment. Capital additions made during the fiscal year ended May 31, 2014, totaled approximately \$5,204,000 and consisted primarily of costs associated with the purchase of new vehicles, Bradner Stadium, Downtown Facilities upgrades and other miscellaneous capital projects. More detailed information about the City's capital assets is presented in the notes of the financial statements.

Long-term Debt

As of May 31, 2014, the City had approximately \$26,555,000 in serial bonds, capital leases, EFC notes, compensated absences, retirement incentives, environmental liability and other long-term debt outstanding.

**CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2014**

Figure A-7 – General Fund Budget vs Actual

<i>City of Olean, New York</i>			
<i>Budget vs Actual - General Fund</i>			
<i>For the Year Ended May 31, 2014</i>			
<i>(in thousands of dollars)</i>			
Revenue	Revised Budget	Actual	Difference
Real property taxes	\$ 7,002	\$ 7,002	\$ -
Special assessment tax - real property	16	15	(1)
Real property tax items	121	132	11
Non-property tax items	4,710	4,654	(56)
Departmental income	1,391	1,228	(163)
Intergovernmental charges	-	161	161
Use of money and property	20	8	(12)
Licenses and permits	51	41	(10)
Fines and forfeitures	75	73	(2)
Sales of property and comp for loss	-	11	11
State aid	2,916	2,937	21
Other financing sources			
Transfer from other funds	153	130	(23)
Total revenue	\$ 16,455	\$ 16,392	\$ (63)
Expenses			
General government support	\$ 2,386	\$ 2,284	\$ 102
Public safety	5,419	5,447	(28)
Health	140	122	18
Transportation	2,391	2,616	(225)
Economic development	15	-	15
Culture and recreation	1,088	915	173
Home and community services	210	156	54
Employee benefits	4,043	3,955	88
Debt service	25	25	-
Other financing uses			
BANS redeemed from appropriations	-	-	-
Transfer to other funds	1,114	2,157	(1,043)
Total expenses	\$ 16,831	\$ 17,677	\$ (846)

VIII. Factors bearing on the City's Future

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

- The City has seen increases in its real property revenues in the past few years due to the increased rates adopted by the Common Council of the City of Olean. For the 2014-15 fiscal year the Council adopted a budget with a tax increase of approximately 1.48%. Tax rates decreased in the prior year.
- NYS has imposed a 2% property tax cap on all municipalities as it relates to the 2014-15 budget year. The City is carefully adhering to the state mandated tax cap, as it affects the City's operations and the services it presently provides to its citizens.

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

- New York State has announced that it intends to continue AIM funding in 2014-15 at the same levels realized in the 2013-14 fiscal year.
- The contracts of three bargaining units within the City of Olean that expired on May 31, 2011 have been settled. Both police unions settled on a new agreement that will expire in 2015. The CSEA and The City of Olean settled on a contract that will expire in 2016. The City of Olean and the Fire Dept. contract remains unsettled. The City is concerned with rising health care costs.
- The City of Olean has completed much of the rehabilitation of Bradner Stadium area's infrastructure. Approximately \$1.30 million has been spent on this project, which will further improve the East End and hopefully result in increased tourist and sales tax revenue.
- North Union Street will be taking on a new look in years to come. The City of Olean has been awarded a \$6.5 million TIGER Grant that will be used to improve the sewer system and other infrastructure on this important street. Construction will begin in October 2014, with a match of \$1.50 million from the City of Olean.
- A \$19 million reconstruction of the Sewage Treatment plant has begun. The design and engineering component of the project began in the summer of 2014.
- Renovations and upgrades to the local airport are continuing, including the addition of 10 new hangers. The improvements also include upgrades to the fueling facilities and runway.

IX. Contacting the City's Financial Management

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

Mr. Fred Saradin, City Auditor
City of Olean, New York
Municipal Building
Olean, New York

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

Page 11

Assets	2014	2013
Cash on hand	\$ 1,348	\$ 1,348
Cash on deposit		
Regular accounts	9,159,613	10,506,876
Receivables		
Refuse and garbage	1,869	1,869
Special assessment	1,882	1,882
Accounts receivable	1,895,261	1,726,250
Due from other funds	4,247	9,513
State and federal	1,250,406	1,693,942
Due from other governments	13,365	31,189
Revolving loans receivable	100,403	166,952
First Time Homebuyers loans receivable	72,517	95,963
Rehabilitation loans receivable	6,699	7,096
Cash to be used for capital assets	1,914,399	3,733,181
Capital assets, net	55,033,022	51,700,201
Total assets	<u>\$ 69,455,031</u>	<u>\$ 69,676,262</u>
Liabilities		
Payables		
Accounts payable and retainage payable	\$ 929,977	\$ 850,496
Accrued liabilities	745,221	645,766
Due to other funds	13,248	2,716
Due to employee retirement system	336,167	348,777
Other liabilities	31,601	33,387
Unearned revenue	179,935	269,790
Long-term liabilities		
Portion due or payable within one year		
Due to other governments	22,656	24,475
NYS EFC notes	305,000	300,000
Serial bonds payable	1,385,000	1,401,059
Capital leases	118,939	123,358
Environmental liability	225,000	225,000
Retirement incentive	3,000	3,000
Compensated absences	35,000	35,000
Portion due or payable after one year		
Due to other governments	-	22,656
NYS EFC notes	4,505,000	4,810,000
Serial bonds payable	18,210,000	19,483,368
Capital leases	974,660	836,378
Environmental liability	507,000	507,000
Retirement incentive	17,000	20,073
Compensated absences	239,763	264,026
Other-post employment benefits	6,753	126,824
Total liabilities	<u>28,790,920</u>	<u>30,333,149</u>
Deferred Inflows of Resources		
Taxes collected for subsequent year	4,780,151	4,922,591
Net Position		
Net investment in capital assets	30,781,005	26,243,329
Restricted for		
Debt service	205,365	42,667
Capital	2,466,763	4,165,272
Unrestricted:		
Designated	579,235	673,454
Undesignated	1,851,592	3,295,800
Total net position	<u>35,883,960</u>	<u>34,420,522</u>
Total liabilities and net position	<u>\$ 69,455,031</u>	<u>\$ 69,676,262</u>

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

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

Functions/Programs	Expenses	Program Revenues			2014	2013
		Charges for Services	Operating Grants	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
General government support	\$ 2,264,840	\$ 242,926	\$ -	\$ 85,871	\$ (1,936,043)	\$ (2,103,590)
Public safety	5,919,014	161,212	87,441	25,882	(5,644,479)	(5,483,413)
Health	133,811	664,045	-	-	530,234	625,847
Transportation	3,333,830	340,736	511,884	191,389	(2,289,821)	(443,920)
Economic development	-	10,835	-	-	10,835	2,835
Culture and recreation	896,357	214,937	-	1,007	(680,413)	(802,907)
Home and community services	4,376,550	5,525,839	-	399,402	1,548,691	1,221,471
Employee benefits	4,858,581	1,431,853	-	-	(3,426,728)	(3,539,974)
Debt service - interest & issuance fees	810,013	11,175	-	-	(798,838)	(657,342)
Total functions and programs	\$ 22,592,996	\$ 8,603,558	\$ 599,325	\$ 703,551	(12,686,562)	(11,180,993)
General Revenues						
Real property taxes					7,002,055	7,116,673
Special assessment tax - real property					15,672	15,139
Real property tax items					131,977	146,101
Non-property tax items					4,653,732	4,649,462
Use of money and property					8,296	16,432
Miscellaneous local sources					-	30
State aid					2,338,268	2,403,154
Total general revenues					14,150,000	14,346,991
Change in net position					1,463,438	3,165,998
Net position - beginning of year					34,420,522	31,254,524
Net position - end of year					\$ 35,883,960	\$ 34,420,522

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

	Major Funds					Non-Major	2014	2013
	General	Water	Sewer	Debt Service	Capital Project Funds	Funds Special Revenue Funds	(Memo only) Total	(Memo only) Total
Assets								
Cash on hand	\$ 1,308	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ 1,348	\$ 1,348
Cash on deposit								
Regular accounts	7,175,995	678,364	495,272	263,074	1,914,399	546,908	11,074,012	14,240,057
Receivables								
Refuse and garbage	1,869	-	-	-	-	-	1,869	1,869
Special assessment	1,882	-	-	-	-	-	1,882	1,882
Accounts receivable	238,856	835,666	820,739	-	-	-	1,895,261	1,726,250
Due from other funds	430,326	54,446	103,832	1,533	421,473	30	1,011,640	740,766
Advances to other funds	1,026,146	-	20,416	-	-	-	1,046,562	773,278
State and federal	745,591	-	-	-	504,815	-	1,250,406	1,693,942
Revolving loans receivable	-	-	-	-	-	100,403	100,403	166,952
First Time Homebuyers loans receivable	-	-	-	-	-	72,517	72,517	95,963
Rehabilitation loans receivable	-	-	-	-	-	6,699	6,699	7,096
Total assets	\$ 9,621,973	\$ 1,568,516	\$ 1,440,259	\$ 264,607	\$ 2,840,687	\$ 726,557	\$ 16,462,599	\$ 19,449,403
Liabilities								
Accounts payable and retainage payable	\$ 241,756	\$ 48,915	\$ 73,820	\$ -	\$ 565,486	\$ -	\$ 929,977	\$ 850,496
Accrued liabilities	545,280	61,048	50,893	-	100,000	-	757,221	686,766
Due to other funds	558,276	5,266	40,015	59,242	357,842	-	1,020,641	733,969
Advances from other funds	-	582,457	464,105	-	-	-	1,046,562	773,278
Due to employee retirement systems	281,583	27,917	26,667	-	-	-	336,167	348,777
Other liabilities	23,757	3,079	355	-	-	4,410	31,601	33,387
Unearned revenue	-	-	-	-	-	179,935	179,935	269,790
Total liabilities	1,650,652	728,682	655,855	59,242	1,023,328	184,345	4,302,104	3,696,463
Deferred Inflows of Resources								
Taxes collected for subsequent year	4,780,151	-	-	-	-	-	4,780,151	4,922,591
Fund Equity								
Restricted	-	-	-	205,365	2,466,763	-	2,672,128	4,207,939
Assigned	410,937	839,834	784,404	-	-	542,212	2,577,387	2,780,133
Unassigned (deficit)	2,780,233	-	-	-	(649,404)	-	2,130,829	3,842,277
Total fund equity	3,191,170	839,834	784,404	205,365	1,817,359	542,212	7,380,344	10,830,349
Total liabilities, deferred inflows of resources and fund equity	\$ 9,621,973	\$ 1,568,516	\$ 1,440,259	\$ 264,607	\$ 2,840,687	\$ 726,557	\$ 16,462,599	\$ 19,449,403

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

	Major Funds					Non-Major	2014 (Memo only) Total	2013 (Memo only) Total
	General	Water	Sewer	Debt Service	Capital Project Funds	Funds Special Revenue Funds		
Revenue								
Real property taxes	\$ 7,002,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,002,055	\$ 7,116,673
Special assessment tax - real property	15,672	-	-	-	-	-	15,672	15,139
Real property tax items	131,977	-	-	-	-	-	131,977	146,101
Non-property tax items	4,653,732	-	-	-	-	-	4,653,732	4,649,462
Departmental income	1,227,528	3,495,727	3,111,374	-	-	98,044	7,932,673	7,558,383
Intergovernmental charges	160,915	-	376,845	-	-	-	537,760	522,992
Use of money and property	7,885	-	-	127	1,934	603	10,549	19,004
Licenses and permits	40,604	-	-	-	-	-	40,604	46,817
Fines and forfeitures	73,462	-	-	-	-	-	73,462	81,906
Sale of property & compensation for loss	10,974	2,052	-	-	-	-	13,026	14,162
Miscellaneous local sources	-	-	-	-	200,380	-	200,380	182,161
State aid	2,937,593	-	3,780	-	482,274	-	3,423,647	4,203,841
Federal aid	-	-	-	-	20,897	-	20,897	338,940
Total revenue	16,262,397	3,497,779	3,491,999	127	705,485	98,647	24,056,434	24,895,581
Expenditures								
General government support	2,284,004	64,407	64,778	-	566,886	-	2,980,075	2,923,236
Public safety	5,447,191	-	-	-	170,864	-	5,618,055	5,310,194
Health	122,108	-	-	-	-	-	122,108	32,733
Transportation	2,615,687	-	-	-	1,263,480	-	3,879,167	6,251,619
Economic development	-	-	-	-	-	-	-	15,000
Culture and recreation	915,112	-	-	-	-	-	915,112	1,042,885
Home and community services	155,569	1,840,191	2,109,996	-	2,636,703	247	6,742,706	4,353,766
Employee benefits	3,955,045	548,622	502,321	-	-	-	5,005,988	4,905,772
Debt service:								
Principal	24,475	-	-	1,891,441	-	-	1,915,916	1,392,725
Interest	359	-	-	651,198	-	-	651,557	700,343
Total expenditures	15,519,550	2,453,220	2,677,095	2,542,639	4,637,933	247	27,830,684	26,928,273
Excess (deficiency) of revenue over expenditures	742,847	1,044,559	814,904	(2,542,512)	(3,932,448)	98,400	(3,774,250)	(2,032,692)
Other financing sources (uses)								
Proceeds from Capital Lease	-	-	-	-	324,245	-	324,245	-
Proceeds from serial bonds - construction	-	-	-	-	-	-	-	10,981,059
Proceeds from serial bonds - refunding	-	-	-	-	-	-	-	5,265,339
Payment for refunding of bonds	-	-	-	-	-	-	-	(5,265,339)
Operating transfers in	129,748	-	-	2,705,210	1,970,000	-	4,804,958	4,953,566
Operating transfers out	(2,157,419)	(1,153,520)	(1,105,827)	-	(388,192)	-	(4,804,958)	(4,953,566)
Total other financing sources (uses)	(2,027,671)	(1,153,520)	(1,105,827)	2,705,210	1,906,053	-	324,245	10,981,059
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(1,284,824)	(108,961)	(290,923)	162,698	(2,026,395)	98,400	(3,450,005)	8,948,367
Fund equity, beginning of year	4,475,994	948,795	1,075,327	42,667	3,843,754	443,812	10,830,349	1,881,982
Fund equity, end of year	\$ 3,191,170	\$ 839,834	\$ 784,404	\$ 205,365	\$ 1,817,359	\$ 542,212	\$ 7,380,344	\$ 10,830,349

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Real property taxes	\$ 7,002,055	\$ 7,002,055	\$ 7,002,055	\$ -	\$ -
Special assessment tax - real property	15,708	15,708	15,672	-	(36)
Real property tax items	121,000	121,000	131,977	-	10,977
Non-property tax items	4,710,000	4,710,000	4,653,732	-	(56,268)
Departmental income	1,391,000	1,391,000	1,227,528	-	(163,472)
Intergovernmental charges	-	-	160,915	-	160,915
Use of money and property	20,000	20,000	7,885	-	(12,115)
Licenses and permits	50,600	50,600	40,604	-	(9,996)
Fines and forfeitures	75,000	75,000	73,462	-	(1,538)
Sales of property and compensation for loss	-	-	10,974	-	10,974
State aid	2,796,346	2,916,346	2,937,593	-	21,247
Total revenue	16,181,709	16,301,709	16,262,397	-	(39,312)
Expenditures					
General government support	2,916,103	2,385,759	2,284,004	21,249	80,506
Public safety	5,290,429	5,419,046	5,447,191	32,648	(60,793)
Health	75,070	139,644	122,108	167	17,369
Transportation	2,091,070	2,390,604	2,615,687	248,433	(473,516)
Economic development	15,000	15,000	-	-	15,000
Culture and recreation	1,035,833	1,088,136	915,112	62,661	110,363
Home and community services	171,440	210,329	155,569	45,779	8,981
Employee benefits	4,039,937	4,043,137	3,955,045	-	88,092
Debt service:					
Principal	24,477	24,477	24,475	-	2
Interest	359	359	359	-	-
Total expenditures	15,659,718	15,716,491	15,519,550	410,937	(213,996)
Excess (deficiency) of revenue over expenditures	521,991	585,218	742,847	(410,937)	(253,308)
Other financing sources (uses)					
Operating transfers in	272,631	152,631	129,748	-	(22,883)
Operating transfers out	(794,622)	(1,114,622)	(2,157,419)	-	(1,042,797)
Total other financing sources (uses)	(521,991)	(961,991)	(2,027,671)	-	(1,065,680)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$ -	\$ (376,773)	\$ (1,284,824)	\$ (410,937)	\$ (1,318,988)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	<u>(Water Fund and Sewer Fund Only)</u>				Variance
	Original	Amended	Actual	Encumbrances	Favorable (Unfavorable)
	Budget	Budget	Actual	Encumbrances	(Unfavorable)
Revenue					
Departmental income	\$ 6,774,395	\$ 6,774,395	\$ 6,607,101	\$ -	\$ (167,294)
Intergovernmental charges	275,000	275,000	376,845	-	101,845
Sales of property and compensation for loss	-	-	2,052	-	2,052
State aid	-	-	3,780	-	3,780
Total revenue	7,049,395	7,049,395	6,989,778	-	(59,617)
Expenditures					
General government support	274,000	220,310	129,185	-	91,125
Home and community services	4,010,488	4,418,187	3,950,187	168,298	299,702
Employee benefits	1,072,225	1,079,471	1,050,943	-	28,528
Total expenditures	5,356,713	5,717,968	5,130,315	168,298	419,355
Excess (deficiency) of revenue over expenditures	1,692,682	1,331,427	1,859,463	(168,298)	359,738
Other financing sources (uses)					
Operating transfers out	(1,821,146)	(1,821,146)	(2,259,347)	-	(438,201)
Total other financing sources (uses)	(1,821,146)	(1,821,146)	(2,259,347)	-	(438,201)
Excess (deficiency) of revenue over expenditures and other financing uses	\$ (128,464)	\$ (489,719)	\$ (399,884)	\$ (168,298)	\$ (78,463)

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Use of money and property	\$ -	\$ 127	\$ -	\$ 127
Total revenue	-	127	-	127
Expenditures				
General government support	13,841	-	-	13,841
Debt service:				
Principal	1,814,883	1,891,441	-	(76,558)
Interest	737,044	651,198	-	85,846
Total expenditures	2,565,768	2,542,639	-	23,129
Excess (deficiency) of revenue over expenditures	(2,565,768)	(2,542,512)	-	23,256
Other financing sources (uses)				
Operating transfers in	2,465,768	2,705,210	-	239,442
Total other financing sources (uses)	2,465,768	2,705,210	-	239,442
Excess (deficiency) of revenue and other financing sources over expenditures	\$ (100,000)	\$ 162,698	\$ -	\$ 262,698

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF MAY 31, 2014

Total fund balance - governmental funds \$ 7,380,344

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

Cost of the assets	\$ 83,890,436	
Accumulated depreciation	<u>(28,857,414)</u>	55,033,022

Interest on long-term assets is not accrued in governmental funds, but rather is recognized as an expenditure when due. (213,000)

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

Due to other governments - Constitution Avenue note, net	(9,291)	
NYS Environmental Facilities Corporation Bond	(4,810,000)	
Serial Bonds payable	(19,595,000)	
Capital leases	(1,093,599)	
Environmental liability	(507,000)	
Other post-employment benefits	(6,753)	
Retirement incentive	(20,000)	
Compensated absences	<u>(274,763)</u>	(26,316,406)

Total net position - governmental liabilities \$ 35,883,960

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
Assets				
Cash on hand	\$ 1,348	\$ -	\$ -	\$ 1,348
Cash on deposit				
Regular accounts	11,074,012	-	-	11,074,012
Receivables				
Refuse and garbage	1,869	-	-	1,869
Special assessment	1,882	-	-	1,882
Accounts receivable	1,895,261	-	-	1,895,261
Due from other funds	1,011,640	-	(1,007,393)	4,247
Advances to other funds	1,046,562	-	(1,046,562)	-
State, Federal and other governments	1,250,406	13,365	-	1,263,771
Revolving loans receivable	100,403	-	-	100,403
First Time Homebuyers loans receivable	72,517	-	-	72,517
Rehabilitation loans receivable	6,699	-	-	6,699
Capital Assets, net	-	55,033,022	-	55,033,022
Total assets	\$ 16,462,599	\$ 55,046,387	\$ (2,053,955)	\$ 69,455,031
Liabilities				
Accounts payable and retainage payable	\$ 929,977	\$ -	\$ -	\$ 929,977
Accrued liabilities	757,221	213,000	(225,000)	745,221
Due to other funds	1,020,641	-	(1,007,393)	13,248
Advances from other funds	1,046,562	-	(1,046,562)	-
Due to other governments	-	22,656	-	22,656
Due to employee retirement system	336,167	-	-	336,167
Other liabilities	31,601	-	-	31,601
Unearned revenue	179,935	-	-	179,935
NYS EFC note	-	4,810,000	-	4,810,000
Serial bonds payable	-	19,595,000	-	19,595,000
Capital leases	-	1,093,599	-	1,093,599
Environmental liability	-	507,000	225,000	732,000
Other post-employment benefits	-	6,753	-	6,753
Retirement incentive	-	20,000	-	20,000
Compensated absences	-	274,763	-	274,763
Total liabilities	4,302,104	26,542,771	(2,053,955)	28,790,920
Deferred inflows of resources				
Taxes collected for subsequent year	4,780,151	-	-	4,780,151
Fund equity/net position				
Total liabilities and fund equity/net position	\$ 16,462,599	\$ 55,046,387	\$ (2,053,955)	\$ 69,455,031

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES
AND CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2014

Total net change in fund balances - governmental funds \$ (3,450,005)

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

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

Capital outlays	\$ 5,204,258	
Depreciation expense	<u>(1,871,437)</u>	3,332,821

Repayment of bond and other long term debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net position. 1,898,092

Proceeds from long-term debt (net of issuance fees) are recorded as revenue in governmental funds. However in the statement of activities, proceeds from long-term debt is not recorded as revenue but rather the amount is recorded as a liability in the statement of net assets. Proceeds from long-term debt during the current year consisted of the following: (324,245)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus required the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (140,632)

In the statement of activities, certain operating expenses - compensated absences (vacation and sick days) and other post employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. 147,407

Change in net position of governmental activities \$ 1,463,438

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Total
Revenues					
Real property taxes	\$ 7,002,055	\$ -	\$ -	\$ -	\$ 7,002,055
Special assessment tax - real property	15,672	-	-	-	15,672
Real property tax items	131,977	-	-	-	131,977
Non-property tax items	4,653,732	-	-	-	4,653,732
Departmental income	7,932,673	-	-	(7,932,673)	-
Intergovernmental charges	537,760	-	(17,824)	(519,936)	-
Use of money and property	10,549	-	-	(2,253)	8,296
Licenses and permits	40,604	-	-	(40,604)	-
Fines and forfeitures	73,462	-	-	(73,462)	-
Sales of property and compensation for loss	13,026	-	-	(13,026)	-
Miscellaneous local sources	200,380	-	-	(200,380)	-
State aid	3,423,647	-	-	(1,085,379)	2,338,268
Federal aid	20,897	-	-	(20,897)	-
Total revenues	24,056,434	-	(17,824)	(9,888,610)	14,150,000
Expenditures/Expenses					
General government support	2,980,075	(715,235)	-	(328,797)	1,936,043
Public safety	5,618,055	300,959	-	(274,535)	5,644,479
Health	122,108	11,703	-	(664,045)	(530,234)
Transportation	3,879,167	(545,337)	-	(1,044,009)	2,289,821
Economic development	-	-	-	(10,835)	(10,835)
Culture and recreation	915,112	(18,755)	-	(215,944)	680,413
Home and community services	6,742,706	(2,366,156)	-	(5,925,241)	(1,548,691)
Employee benefits	5,005,988	-	(147,407)	(1,431,853)	3,426,728
Debt service:					
Principal	1,915,916	-	(1,915,916)	-	-
Interest	651,557	-	140,632	6,649	798,838
Total expenditures/expenses	27,830,684	(3,332,821)	(1,922,691)	(9,888,610)	12,686,562
Excess (deficiency) of revenue over expenditures	(3,774,250)	3,332,821	1,904,867	-	1,463,438
Other sources and (uses)					
Proceeds from capital lease	324,245	-	(324,245)	-	-
Operating transfers in	4,804,958	-	-	(4,804,958)	-
Operating transfers out	(4,804,958)	-	-	4,804,958	-
Total other sources (uses)	324,245	-	(324,245)	-	-
Net change for the year	\$ (3,450,005)	\$ 3,332,821	\$ 1,580,622	\$ -	\$ 1,463,438

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (continued)

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

B. Basis of Presentation

1. Government-wide Statements

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

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

2. Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

3. Fund Categories

a. Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position. The following are the City's governmental fund types:

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are Sewer, Water, Revolving Loan, Housing Rehabilitation and First Time Homebuyers. Capital Projects Fund - used to account for financial resources to be used for the acquisition, construction or major repair of major capital facilities.

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

b. Fiduciary Funds

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting / Measurement Focus

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

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

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

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

D. Property Taxes

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

E. Cash and Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity - Reservations and Designations

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

1. Governmental Funds

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

A. Nonspendable

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The City did not have any nonspendable fund balance as of June 30, 2014.

B. Restricted

Fund balance amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation. Restricted Fund Balance includes the following categories:

1. Reserve For Debt Service

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

2. Reserve For Capital Projects

This reserve is used to accumulate funds to finance future costs to be used for the acquisition or construction or renovation of major capital facilities or equipment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity - Reservations and Designations (continued)

1. Governmental Funds (continued)

C. Committed

Fund balance amounts that can be used only for specific purposes determined by a formal action of the City's Common Council, which is the City's highest level of decision-making authority. The City did not have any committed fund balance as of May 31, 2014.

D. Assigned

Fund balance intended to be used by the City for specific purposes but does not meet the criteria to be restricted or committed. Along with the City's Common Council, the City Auditor has been authorized to assign fund balance amounts for specific purposes through the establishment of an encumbrance.

1. Encumbrance Reserve

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Project Funds. The cost of construction contract commitments generally is recorded as an encumbrance of Capital Project Funds and is presented as a reserve for encumbrances. These committed amounts generally will become liabilities in future periods as the contractors perform the construction work. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

2. Special Revenue Fund Balance

Water Fund, Sewer Fund, and Non-Major Special Revenue Fund balances are intended to be used by the City for specific purposes.

E. Unassigned

The residual classification of the general fund and includes all spendable amounts not contained in the other classifications.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity - Reservations and Designations (continued)

2. Government-wide financial statements

A. Net Investment in Capital Assets

This designation of net position is used to accumulate the capital asset balance in the statement of net position less accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

B. Restricted

This category represents amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation.

C. Unrestricted

This category represents net position of the City not restricted for any other purpose.

3. Order of Fund Balance Spending Policy

When more than one classification of fund balance of the City are eligible to be utilized for an expenditure of the City, the order in which the fund balance classifications will be utilized will be as follows:

- a. Restricted fund balance for which action has been taken by the Common Council, a designated City official, or by the voters of the City, specifically designating funds to the expenditure;
- b. Committed fund balance for which action has been taken by the Common Council, a designated City official, or by the voters of the City, specifically designating funds to the expenditure;
- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);
- d. Assigned fund balance within funds other than the General Fund of the City to which the expenditure relates;
- e. Unassigned fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgetary Data

1. Budget Policies

The budget policies are as follows:

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

2. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

The budget and actual comparison for Special Revenue Funds, included in the statement of revenue and expenditures – budget and actual, reflects budgeted and actual amounts for funds with legally authorized (appropriated) budgets.

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

Certain Special Revenue Funds have not been included in the comparison because they do not have the legally authorized (appropriated) budgets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgetary Data (continued)

2. Budget Basis of Accounting (continued)

The following is a reconciliation of the actual activity of these unbudgeted funds to the actual activity on the budget to actual comparison:

	<u>June 1, 2013 Fund Equity</u>	<u>Revenues and Other Sources</u>	<u>Expenditures and Other Uses</u>	<u>May 31, 2014 Fund Equity</u>
Total for funds included in Budget Comparison	\$ 2,024,122	\$ 6,989,778	\$ 7,389,662	\$ 1,624,238
Funds not included in budget comparison:				
Revolving Loan Fund	392,698	71,170	-	463,868
First Time Homebuyers Fund	47,919	24,000	247	71,672
Housing Rehabilitation Fund	3,195	3,477	-	6,672
Total Special Revenue Funds	<u>\$ 2,467,934</u>	<u>\$ 7,088,425</u>	<u>\$ 7,389,909</u>	<u>\$ 2,166,450</u>

H. Revenue Recognition

1. Sales and Use Taxes

The State of New York allocates a portion of its sales and use tax collection to all the municipalities within the State. The portion allocated to the City of Olean for 2013-2014 was \$4,255,237 as compared to \$4,247,527 for the prior fiscal year, an increase of \$7,710. The City's General Fund Balance Sheet, as of May 31, 2014, reflects a receivable balance from Federal and State governments of \$745,591, of which \$620,535 represents an amount of sales and use tax that is "measurable and available" at the end of the fiscal year in accordance with the modified accrual basis of accounting, for sales tax revenue. The City records this amount as non-property tax revenue in the general fund.

I. Capital Assets

During the 2008-2009 fiscal year, the City had an independent appraisal of its fixed assets conducted by third-party professionals. As such, equipment and vehicles are reported at estimated historical cost based on the appraisal. Although, land, buildings and infrastructure is reported at cost and depreciated, a reconciliation of the appraisal and recorded costs has not been performed and therefore, the reasonableness of the City's estimated cost for these assets could not be verified as of May 31, 2014 and therefore, is not in accordance with generally accepted accounting principles. Because the amount reported as fixed assets are estimated, the reported cost may significantly change once the recorded costs and appraisal are verified.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (continued)

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

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

J. Unearned Revenue

Unearned revenue is reported on the City's combined balance sheet. Unearned revenue arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the City has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

K. Compensated Absences

Sick leave and Comp Time Pay - certain of the City's employee groups have negotiated benefits payable based on accumulated unused sick and comp days. Generally the employee must have accumulated minimum years of service with the City and must be eligible for retirement under the provisions of either of the employee retirement systems. The City has recorded an estimated liability in the government-wide financial statements as of May 31, 2014 amounting to \$274,763 to recognize the cost of the benefits for those employees eligible to receive such benefits. Payment of these benefits is dependent on many factors; therefore, the timing of future payments is not readily determinable. The City believes sufficient resources and budgetary appropriations will be available as the benefits become payable in future years. The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Retirement Incentives

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

M. Estimates

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

N. Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

O. Interfund Activity

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

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

P. Total Columns on the Financial Statements

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

Q. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and governmental fund financial statements. No deferred outflows of resources affect the governmental fund or government-wide financial statements in the current year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Deferred Inflows of Resources

The City reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide and governmental fund financial statements. The only deferred inflows of resources reported in this year's financial statements is a property taxes collected during the current year for next year's budget and is recorded in the government-wide financial statements and general fund in the current year.

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

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

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

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

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

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

1. Long-term Revenue Differences

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

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

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

2. Capital Related Differences

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

3. Long-term Debt Transaction Differences

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Cash and Investments

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

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. While the City does not have a specific policy with regard to custodial credit risk, New York State statutes govern the City's investment policies. At May 31, 2014, the City's bank deposits were fully collateralized.

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

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2014

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(CONTINUED)

A. Assets (continued)

1. Cash and Investments (continued)

a. Deposits

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

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

Total financial institution (bank) balances at May 31, 2014 per the bank were approximately \$11,828,000. These deposits are categorized as follows:

Category 1	Category 2	Category 3	Carrying Value
\$ 565,000	\$ 11,263,000	\$ -	\$ 11,828,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(CONTINUED)

A. Assets (continued)

2. Capital Assets

Governmental activities:	Beginning Balance 5/31/13	Additions / Transfers	Ending Balance 5/31/14
Capital assets that are not depreciated:			
Land	\$ 660,727	\$ -	\$ 660,727
Construction in Progress	13,623,722	3,000,149	16,623,871
Capital assets that are depreciated:			
Buildings and Improvements	53,873,736	160,520	54,034,256
Furniture and Equipment	4,410,515	920,137	5,330,652
Vehicles	6,117,478	1,123,452	7,240,930
Total historical Cost	78,686,178	\$ 5,204,258	83,890,436
Less: Accumulated depreciation:	26,985,977	\$ 1,871,437	28,857,414
Total net book Value	\$ 51,700,201		\$ 55,033,022

Depreciation expense:

General governmental support	\$ 291,498
Public safety	531,547
Health	11,703
Transportation	342,350
Economic development	-
Culture and recreation	88,900
Home and community services	605,439
	<u>\$ 1,871,437</u>

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2014

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (continued)

3. Receivables

Receivables at May 31, 2014 consisted of the following, which are stated at net realizable value. The City's management has deemed the amounts to be fully collectible.

Fund	Description	Amount
General Fund	Due from Federal & State - Other	\$ 125,056
General Fund	Due from Federal & State - NYS sales tax	620,535
General Fund	Other receivables	242,607
Special Revenue:		
Water Fund	Accounts receivable - water rents and meter	835,666
Water Fund	Due from Federal & State	
Sewer Fund	Accounts receivable - sewer rents	820,739
Sewer Fund	Due from Federal & State	
Community Development:		
Revolving Loan	Loan receivable	100,403
1 st Time Home	Loan receivable	72,517
Housing Rehab	Loan receivable	6,699
Capital Projects	Due from Federal & State - various projects	504,815
		<u>\$ 3,329,037</u>

B. Liabilities

1. Deferred Inflows of Resources and Unearned Revenue

Deferred Inflows of resources and unearned revenue at May 31, 2014 was as follows:

	General Fund	Special Revenue Fund
Deferred inflows		
Real property taxes	\$ 4,769,581	\$ -
Payment in-lieu of taxes	8,688	-
Special assessment taxes	1,882	-
	<u>\$ 4,780,151</u>	<u>-</u>
Unearned revenue		
Revolving loans	-	100,691
Housing Rehab	-	6,729
1 st Time Home	-	72,515
	<u>\$ -</u>	<u>\$ 179,935</u>

Deferred inflows of resources related to real property taxes reflect collections during May 2014 for real property taxes levied on May 1 for the 2014-2015 fiscal year. Deferred inflows from special assessment taxes consist of levies on property owners to be collected after May 31, 2014. Installments on special assessments are due over a period of 5 to 10 years. Revenue from revolving loans is collected over a period of 5 to 20 years.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

2. Pension Plans

a. Plan Description

The City participates in the New York State Employees' Retirement System (ERS) and the New York State Policemen's and Firemen's Retirement System (PFRS). These are cost sharing multiple-employer public employee retirement systems. The Systems provide retirement benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

b. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions, required to be made by employers to the pension accumulation fund.

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

		ERS	PFRS
May 31,	2014	\$ 768,156	\$ 1,162,942
	2013	755,902	1,130,412
	2012	606,241	933,658

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

2. Pension Plans (continued)

b. Funding Policy (continued)

Effective June 1, 1988, the City entered into a similar agreement establishing the Olean General Unit Retirees Health Insurance Fund. The agreement called for the City to contribute \$55,569, to this Fund each year. This agreement was modified through the 2001-2004 Collective Negotiations Agreement to increase the City's contribution to \$91,000 annually to this Fund, which commenced during the 2002-2003 fiscal year.

Effective June 1, 1998, the City entered into an agreement establishing the Olean Fire Sick Leave Pay Fund. The City is required to contribute \$18,201 to this fund each year.

3. Other Post-Employment Benefits

Plan Description

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

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended May 31, 2014 the City contributed approximately \$45,000 for plan benefits and Medicare-B reimbursements. Plan members receiving benefits contributed approximately \$0 for co-payments and other required contributions.

Annual OPEB Cost and Net OPEB Obligation

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table summarizes the City's annual OPEB cost for 2014, the amount actually contributed to the Plan, and the changes in the City's net OPEB obligation (asset):

Normal Cost	\$ -
Amortization of unfunded actuarial accrued liability	65,083
Interest adjustment	-
Annual required contribution adjustment	-
Annual OPEB cost (expense)	65,083
Actuarial Adjustment	(140,189)
Contributions made	(44,965)
Decrease in net OPEB obligation/(asset)	(120,071)
Net OPEB obligation/(asset) – beginning of year	126,824
Net OPEB obligation-end of year	<u>\$ 6,753</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/14	\$ 65,083	69.1%	\$ 6,573
6/30/13	\$ 168,889	26.9%	\$ 126,824
6/30/12	\$ 168,979	58.8%	\$ 3,399

Funding Status and Funding Progress

As of June 30, 2014, the actuarial accrued liability for benefits was \$514,979, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately \$0 and the ratio of unfunded actuarial liability to the covered payroll was 0% as the actuarial accrued liability was related to retirees of the City.

NOTE 3 – DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Funding Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual ARC of the City are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. The schedule of funding progress is intended to present multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the City and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the City and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:

Marital status – Based on actual health coverage election for active employees and retirees, with male spouses assumed to be three years older than female spouses. Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on the 2000 GAR Mortality Table.

Healthcare cost trend rate – The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment. The ultimate trend rate was selected based on historical medical CPI information. Rate of 10.0% initially, reduced to an ultimate rate of 5% after seven years.

Health insurance premiums – 2013 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

Discount rate and cost method - Based on the historical and expected returns of the City's general assets, a discount rate of 4.5% was used. In addition, the projected unit credit actuarial cost method with linear prorating to decrement was used.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

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

4. Short-Term Debt

a. Bond Anticipation Notes

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

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

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

In August 2012, the *City of Olean, New York* issued public improvement serial bonds in the general fund in the amount of \$9,250,000. Proceeds from the issuance along with a payment in the amount of \$237,895 (BAN Redeemed from Appropriation) was used to pay down the outstanding bond anticipation notes which matured on August 9, 2012.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

4. Short-Term Debt (continued)

a. Bond Anticipation Notes (continued)

In August 2012, the *City of Olean, New York* issued public improvement serial bonds in the sewer fund in the amount of \$1,731,059. Proceeds from the issuance was used to pay down the outstanding bond anticipation notes in the amount of \$1,695,000 which matured on August 9, 2012 along with accrued interest and bond issuance costs in the amounts of \$26,000 and \$10,059 respectively.

There were no bond anticipation notes issued during the fiscal year ended May 31, 2014.

b. Revenue Anticipation Notes

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

There were no revenue anticipation notes issued during the fiscal years ended May 31, 2014 and 2013.

5. Long-Term Debt

a. Debt Limit

At May 31, 2014 the total outstanding indebtedness of the City aggregated \$24,427,652 (including bond anticipation notes and revenue anticipation notes). Of this amount, \$2,169,652 is subject to the constitutional debt limit and represented approximately 8.88% of its statutory debt limit.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

b. Serial Bonds

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

In May 2013, the *City of Olean, New York* issued public improvement refunding serial bonds in the water fund in the amount of \$5,210,000 and maturing on August 15, 2038. Proceeds from the issuance was used to pay down the outstanding serial bond in the amount of \$5,098,000 which was to mature on August 15, 2038.

c. Other Long-Term Debt

In addition to the above long-term debt, the *City of Olean, New York* has a loan from New York State to finance the construction of Constitution Avenue. The balance of this loan at May 31, 2014 was \$22,656. Although the loan is in the City of Olean's name, the Towns of Allegany and Olean are responsible for 59% of the loan or \$13,365, which is recorded in due from other governments. Both the asset and liability are recorded in the government-wide financial statements.

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

d. Installment Purchase Debt – Capital Leases

During the 2009-10 fiscal year, the **City of Olean, New York** entered into a \$1,046,586 15-year capital lease with Manufacturers and Traders Trust Company in concurrence with the **City of Olean, New York's** Energy Performance Audit. Equipment included in the lease agreement consists of lighting and lighting controls, building envelope upgrades, a low emissivity ceiling, energy efficient motor replacement, a pump, VFD, and control upgrades to be used throughout various buildings. During the current fiscal year, principal and interest paid on this capital lease totaled approximately \$95,119, which is included in the interfund transfers to the City's debt service fund. The General Fund, Water Fund and Sewer Fund each paid principal and interest for the year ended May 31, 2014 of \$14,268, \$73,242, and \$7,610, respectively.

During the 2009-10 fiscal year, the **City of Olean, New York** entered into a \$411,623 5-year capital lease with First Niagara Bank. Equipment included in the lease agreement consists of a 2009 Vac-Con Sewer Cleaner and a 2009 Pelican Street Sweeper.

e. Summary Long-Term Debt

The following is a summary of bonds outstanding as of May 31, 2014:

	Issued	Original Amount	Interest Rate	Final Maturity	Outstanding May 31, 2014
General Fund					
Various Purpose	08/04	\$ 938,383	Various	08/14	\$ 33,875
Public Improvement Bond	08/06	1,160,000	Various	08/14	100,000
Public Improvement Bond	08/10	870,000	Various	08/20	543,418
Deficit Financing Bond	08/10	1,444,070	Various	08/20	902,525
Public Improvement Bond	08/12	9,250,000	Various	08/33	8,880,000
Special Revenue Funds					
Water Filtration Plant-Ref.	10/12	2,060,000	Various	10/32	1,980,000
Water Filtration Plant	07/03	1,809,453	Various	07/23	1,010,000
Water Reservoir	07/03	4,665,163	Various	07/24	2,830,000
Water Filtration Plant	05/13	5,868,000	Various	08/38	5,025,000
Water Fund – Various	08/04	207,262	Various	08/14	4,375
Water Fund – Various	08/09	325,000	Various	08/19	145,000
Water Fund – Odor Control	08/09	339,190	4.70%	08/16	190,000
Water Fund – Deficit Financing Bond	08/10	327,940	Various	08/20	203,193
Sewer Fund – Various	08/04	82,905	Various	08/14	1,750
Sewer Fund – Public Imp.	08/06	80,000	Various	08/14	10,000
Sewer Fund – Various	08/09	580,000	Various	08/19	390,000
Sewer Fund – Catch Basin	08/10	585,000	Various	08/20	435,000
Sewer Fund – Deficit Financing Bond	08/10	227,990	Various	08/20	140,864
Sewer Fund – Public Imp	08/12	1,731,059	Various	08/33	1,580,000
Total					\$ 24,405,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

d. Installment Purchase Debt – Capital Leases (continued)

During the current fiscal year, principal and interest paid on this capital lease totaled approximately \$73,286, which is included in the interfund transfers to the City's debt service fund. The General Fund and Sewer Fund each paid principal and interest for the year ended May 31, 2014 of \$29,314 and \$43,972, respectively.

During the 2013-14 fiscal year, the **City of Olean, New York** entered into a \$324,245 5-year capital lease with First Niagara Bank. Equipment included in the lease agreement consists of a 2013 Vac-Con Sewer Cleaner and a 2013 Pelican Street Sweeper. During the current fiscal year, principal and interest paid on this capital lease totaled approximately \$67,024, which is included in the interfund transfers to the City's debt service fund. The General Fund paid principal and interest for the year ended May 31, 2014.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

f. Changes

The following is a summary of changes in long-term liabilities for the period ended May 31, 2014:

	Payable at June 1, 2013	Additions	Reductions	Balance at May 31, 2014
Bonds	\$ 15,786,059	\$ -	\$ 1,216,059	\$ 14,570,000
EFC Grid Note/Bond	2,060,000	-	80,000	1,980,000
EFC Grid Bond	3,050,000	-	220,000	2,830,000
RD Bond	5,210,000	-	185,000	5,025,000
	<u>26,106,059</u>	<u>-</u>	<u>1,701,059</u>	<u>24,405,000</u>
Amortization of Bond Issuance Costs	(111,632)	-	(111,632)	-
Subtotal	<u>25,994,427</u>	<u>-</u>	<u>1,589,427</u>	<u>24,405,000</u>
Due to Other				
Governments	47,131	-	24,475	22,656
Environmental Liability	732,000	-	-	732,000
Retirement Incentive	23,073	-	3,000	20,000
Compensated Absences	299,026	-	24,263	274,763
Other Post-Employment Benefits	126,824	-	120,071	6,753
Capital Leases	959,736	324,245	190,382	1,093,599
Subtotal	<u>2,187,790</u>	<u>324,245</u>	<u>362,191</u>	<u>2,149,771</u>
	<u>\$ 28,182,217</u>	<u>\$ 324,245</u>	<u>\$ 1,951,618</u>	<u>\$ 26,554,771</u>

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

g. Long-Term Debt Interest

Interest expense on long term indebtedness totaled \$651,557 for the year ended May 31, 2014, of which \$359 was recorded in the general fund, while \$651,198 was recorded in the debt service fund.

h. Maturity

The following table summarizes the City's future serial bond debt, Rural Development and EFC bond and debt service requirements as of May 31, 2014:

Year Ending May 31	Total	Principal	Interest
2015	\$ 2,317,035	\$ 1,690,000	\$ 627,035
2016	2,204,041	1,615,000	589,041
2017	2,193,825	1,645,000	548,825
2018	2,127,494	1,620,000	507,494
2019	1,824,418	1,355,000	469,418
2020-2024	8,037,657	6,165,000	1,872,657
2025-2029	5,883,515	4,715,000	1,168,515
2030-2034	4,774,770	4,270,000	504,770
2035-2039	1,458,654	1,330,000	128,655
Total	\$30,821,410	\$ 24,405,000	\$ 6,416,410

The following table summarizes the City's future amounts due to other governments as of May 31, 2014.

Year Ending May 31	Total	Principal	Interest
2015	\$ 22,769	\$ 22,656	\$ 113
Total	\$ 22,769	\$ 22,656	\$ 113

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

h. Maturity (continued)

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

Year Ending May 31	Total	Principal	Interest
2015	\$ 162,143	\$ 118,939	\$ 43,204
2016	162,143	123,996	38,147
2017	162,143	129,355	32,788
2018	162,143	135,038	27,105
2019	95,119	74,043	21,076
2020-2024	475,597	457,247	18,350
2025	54,981	54,981	-
Total	\$ 1,274,269	\$ 1,093,599	\$ 180,670

C. Deferred Compensation Plan

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

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transactions

Interfund receivables and payables at May 31, 2014 and interfund transactions during the fiscal year ended May 31, 2014 were as follows:

	Due From Other Funds	Due to Other Funds	Long-Term Advances Receivable	Long-Term Advances Payable	Interfund Revenue	Interfund Expenditures
General Fund	\$ 430,326	\$ 558,276	\$ 1,026,146	\$ -	\$ 129,748	\$ 2,157,419
Capital Projects Fund	421,473	357,842	-	-	1,970,000	388,192
Agency Fund	13,248	4,247	-	-	-	-
Debt Service Fund	1,533	59,242	-	-	2,705,210	-
Sewer Fund	103,832	40,015	20,416	464,105	-	1,105,827
Water Fund	54,446	5,266	-	582,457	-	1,153,520
Housing Rehab Fund	30	-	-	-	-	-
Totals	<u>\$ 1,024,888</u>	<u>\$ 1,024,888</u>	<u>\$ 1,046,562</u>	<u>\$ 1,046,562</u>	<u>\$ 4,804,958</u>	<u>\$ 4,804,958</u>

During the current year, the General, Water, Sewer and Capital Projects funds transferred \$687,419, \$903,520, \$855,827 and \$258,444, respectively to the Debt Service Fund to pay for the City's long-term debt obligations.

In addition, the General, Water and Sewer funds also transferred \$1,470,000, \$250,000, and \$250,000 to the City's Capital Projects fund for cost associated with the Downtown Facilities, Vehicle Replacement, and other assorted capital projects. The city's Capital Projects fund transferred \$129,748 to the General Fund related to closing of the Main Street Bridge, Safe Routes to School and HVAC Reserve projects.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A. Risk Financing and Related Insurance

General Information

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

B. Compensated Absences

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

NOTE 4 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Federal and State Audits

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

D. Litigation

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

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

E. Employee Contracts

The City of Olean has four collective bargaining units, Police Patrol Unit, Police Command Unit, Civil Service Employees Association Unit and Olean Professional Fire Fighters Association. The two Police Unions have entered in contracts that will expire on May 31, 2015 and the Civil Service Employees Association Unit's contract will expire on May 31, 2016. The Olean Professional Fire Fighters Association expired on May 31, 2011.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

F. Environmental

In 1994 the *City of Olean, New York* determined that leakage problems existed at the site of its former landfill in Ischua, New York. The City was issued an Order on Consent by the Department of Environmental Conservation (DEC) which required the City to prepare an engineering report for the wetland treatment system and to construct a leachate collection and treatment system. The City complied with preparing plans for the treatment system and submitted it to NYSDEC and has not received a response as of the audit report date. The City has accrued \$125,000 as of May 31, 2014, for the estimated costs associated with this Order. It is not known at this time whether other remediation costs will be necessary.

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

On August 19, 2004, the City issued bond anticipation notes in the amount of \$2,705,000 of which \$700,000 was designated for the first two phases of this project. On August 19, 2005 the City issued an additional BAN in the amount of \$700,000 for the last phases of this project. In 2006 the City completed a new master plan for the waste water system and submitted the plan to the DEC for their review.

In a prior year, the City accrued \$1,500,000 in the statement of net position as an estimate of the cost of remedial actions; this liability has been reduced by related costs incurred during the current and prior years and as of May 31, 2014, the estimated liability stands at \$607,000.

NOTE 4 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

F. Environmental (continued)

In 2005 the *City of Olean, New York* began renegotiating the Order on Consent and submitted a Master Plan to NYSDEC in January 2006. The City is currently working with a consultant to re-write the Master Plan and begin preliminary design of the Phase 1 project at the Wastewater Treatment Facility. The cost of the project is unknown as of the date of this audit report.

G. Retirement Incentives

In a December 2006, the *City of Olean, New York* offered retirement incentives to certain employees. Employees whom participated in the incentive were eligible to receive continuation of health coverage for five years or a cash alternative. Total accumulated costs associated with the incentive approximated \$995,000, of which \$975,000 was paid during prior fiscal years. The remaining \$20,000 is recognized as a liability in the Statement of Net position. Future payments related to the incentive are as follows:

Year Ending May 31	Incentive
2015	\$ 3,000
2016	3,000
2017	3,000
2018	3,000
2019	4,000
2020	4,000
Total	<u>\$ 20,000</u>

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2014

NOTE 5 – FUND BALANCE

1. Classification

The City's fund equity is comprised of various components:

Category/Fund	Description	May 31, 2014
Restricted:		
Debt Service	Reserve for debt service	\$ 205,365
Capital	Reserve for Capital	\$ 2,466,763
Assigned:		
General	Reserve for encumbrances	\$ 410,937
Water	Reserve for encumbrances	\$ 159,456
	Special Revenue Fund Balance	680,378
		<u>\$ 839,834</u>
Sewer	Reserve for encumbrances	\$ 8,842
	Special Revenue Fund Balance	775,562
		<u>\$ 784,404</u>
First Time Homebuyers	Special Revenue Fund Balance	\$ 71,672
Housing Rehab	Special Revenue Fund Balance	\$ 6,672
Revolving Loan	Special Revenue Fund Balance	\$ 463,868

2. Accumulated Deficit

The *City of Olean, New York* had certain projects that when closed out will have deficit fund balances. As a result, the City will be required to transfer funds from its general fund to eliminate the capital project deficits. Management is developing plans to alleviate these deficits in future years.

Capital Project	May 31, 2014
Airport Master Plan	\$ 78,289
Bartlett House Renovations	\$ 11,752
Fire Hall Relocation	3,478
East State Street and East End Sewer	74,078
Courtroom Repairs	8,403
Subtotal	<u>\$ 97,711</u>

NOTE 5 – FUND BALANCE (CONTINUED)

2. Accumulated Deficit (continued)

The *City of Olean, New York* had certain projects that have been established within the current year. These projects incurred expenses related to the initial phases of the projects. The city anticipates revenue from federal, state, and local sources to cover these expenses.

Capital Project	May 31, 2014
Brownfield Opportunity Area Program	\$ 143,689
Waste Water Treatment Plant Master Plan	318,971
Airport Master Plan	78,289
Franchot Playground	5,531
North Union Street Rehabilitation	5,213
Subtotal	<u>\$ 551,693</u>

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 8, 2014, which is the date the financial statements were available to be issued.

On June 19, 2014, *City of Olean, New York* issued bond anticipation notes, 2014, in the amount of \$4,700,000. The bonds are dated June 19, 2014 and mature on June 18, 2015. The bond anticipation notes carry an interest rate of 1.5% and proceeds were used to finance the following projects:

Firefighting vehicle and apparatus	\$ 1,080,000
Ice resurfacers	220,000
York and Prospect Street rehabilitation	3,400,000
Subtotal	<u>\$ 4,700,000</u>

SUPPLEMENTARY INFORMATION

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
GENERAL FUND
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
<u>Assets</u>		
Cash on hand	\$ 1,308	\$ 1,308
Cash on deposit		
Regular accounts	7,175,995	8,591,083
Receivables		
Refuse and garbage	1,869	1,869
Special assessment	1,882	1,882
Accounts receivable	238,856	260,101
Due from other funds	430,326	430,326
Advances to other funds	1,026,146	752,862
State and federal	745,591	689,128
Total assets	\$ 9,621,973	\$ 10,728,559
<u>Liabilities, Deferred Inflows of Resources and Fund Equity</u>		
Liabilities		
Accounts payable	\$ 241,756	\$ 263,243
Accrued liabilities	545,280	479,136
Due to other funds	558,276	278,010
Due to employee retirement system	281,583	290,328
Other liabilities	23,757	19,257
Total liabilities	1,650,652	1,329,974
Deferred Inflows of Resources		
Taxes collected for subsequent year	4,780,151	4,922,591
Fund Equity		
Assigned	410,937	312,199
Unassigned	2,780,233	4,163,795
Total fund equity	3,191,170	4,475,994
	\$ 9,621,973	\$ 10,728,559

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY
GENERAL FUND****FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013****Page 40**

	May 31 2014	May 31 2013
Revenue		
Real property taxes	\$ 7,002,055	\$ 7,116,673
Special assessment tax - real property	15,672	15,139
Real property tax items	131,977	146,101
Non-property tax items	4,653,732	4,649,462
Departmental income	1,227,528	1,278,018
Intergovernmental charges	160,915	134,498
Use of money and property	7,885	12,532
Licenses and permits	40,604	46,817
Fines and forfeitures	73,462	81,906
Sales of property and compensation for loss	10,974	12,359
State aid	2,937,593	2,736,290
Federal aid	-	139,900
Total revenue	16,262,397	16,369,695
Expenditures		
General government support	2,284,004	2,154,905
Public safety	5,447,191	5,206,659
Health	122,108	32,733
Transportation	2,615,687	1,924,809
Economic development	-	15,000
Culture and recreation	915,112	1,036,238
Home and community services	155,569	134,779
Employee benefits	3,955,045	3,889,120
Debt service:		
Principal	24,475	24,232
Interest	359	1,509
Total expenditures	15,519,550	14,419,984
Excess of revenue over expenditures	742,847	1,949,711
Other financing sources (uses)		
BANS redeemed from appropriations	-	(30,000)
Operating transfers in	129,748	-
Operating transfers out	(2,157,419)	(3,188,127)
Total other financing sources (uses)	(2,027,671)	(3,218,127)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(1,284,824)	(1,268,416)
Fund equity, beginning of year	4,475,994	5,744,410
Fund equity, end of year	\$ 3,191,170	\$ 4,475,994

**CITY OF OLEAN, NEW YORK
COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS
AS OF MAY 31, 2014**

	<u>Community Development</u>					(Memo only) Total
	Water	Sewer	Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Assets						
Cash on hand	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ 40
Cash on deposit						
Regular accounts	678,364	495,272	468,542	6,672	71,694	1,720,544
Receivables						
Accounts receivable	835,666	820,739	-	-	-	1,656,405
Advances to other funds	-	20,416	-	-	-	20,416
Due from other funds	54,446	103,832	-	30	-	158,308
Revolving loans receivable	-	-	100,403	-	-	100,403
First Time Homebuyers loans receivable	-	-	-	-	72,517	72,517
Rehabilitation loans receivable	-	-	-	6,699	-	6,699
Total assets	\$ 1,568,516	\$ 1,440,259	\$ 568,945	\$ 13,401	\$ 144,211	\$ 3,735,332
Liabilities						
Accounts payable	\$ 48,915	\$ 73,820	\$ -	\$ -	\$ -	\$ 122,735
Accrued liabilities	61,048	50,893	-	-	-	111,941
Due to other funds	5,266	40,015	-	-	-	45,281
Advances from other funds	582,457	464,105	-	-	-	1,046,562
Other liabilities/due to retirement systems	30,996	27,022	4,386	-	24	62,428
Unearned revenue	-	-	100,691	6,729	72,515	179,935
Total liabilities	728,682	655,855	105,077	6,729	72,539	1,568,882
Fund Equity						
Assigned	839,834	784,404	463,868	6,672	71,672	2,166,450
Total fund equity	839,834	784,404	463,868	6,672	71,672	2,166,450
Total liabilities and fund equity	\$ 1,568,516	\$ 1,440,259	\$ 568,945	\$ 13,401	\$ 144,211	\$ 3,735,332

CITY OF OLEAN, NEW YORK
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY - ALL SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Water	Sewer	Community Development			(Memo only) Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Revenue						
Departmental income	\$ 3,495,727	\$ 3,111,374	\$ 70,589	\$ 3,476	\$ 23,979	\$ 6,705,145
Intergovernmental charges	-	376,845	-	-	-	376,845
Use of money and property	-	-	581	1	21	603
Sales of property & compensation for loss	2,052	-	-	-	-	2,052
State aid	-	3,780	-	-	-	3,780
Total revenue	3,497,779	3,491,999	71,170	3,477	24,000	7,088,425
Expenditures						
General government support	64,407	64,778	-	-	-	129,185
Home and community services	1,840,191	2,109,996	-	-	247	3,950,434
Employee benefits	548,622	502,321	-	-	-	1,050,943
Total expenditures	2,453,220	2,677,095	-	-	247	5,130,562
Excess (deficiency) of revenue over expenditures	1,044,559	814,904	71,170	3,477	23,753	1,957,863
Other financing uses						
Operating transfers out	(1,153,520)	(1,105,827)	-	-	-	(2,259,347)
Total financing uses	(1,153,520)	(1,105,827)	-	-	-	(2,259,347)
Excess (deficiency) of revenue over expenditures and other financing uses	(108,961)	(290,923)	71,170	3,477	23,753	(301,484)
Fund equity, beginning of year	948,795	1,075,327	392,698	3,195	47,919	2,467,934
Fund equity, end of year	\$ 839,834	\$ 784,404	\$ 463,868	\$ 6,672	\$ 71,672	\$ 2,166,450

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SPECIAL REVENUE FUNDS
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	1,720,544	1,809,758
Accounts receivable	1,656,405	1,464,363
Advances to other funds	20,416	20,416
Due from other funds	158,308	300,691
Revolving loans receivable	100,403	166,952
First time homebuyers loans receivable	72,517	95,963
Rehabilitation loans receivable	6,699	7,096
Total assets	\$ 3,735,332	\$ 3,865,279
Liabilities		
Accounts payable	\$ 122,735	\$ 139,319
Accrued liabilities	111,941	107,630
Due to other funds	45,281	34,749
Advances from other funds	1,046,562	773,278
Other liabilities/due to retirement systems	62,428	72,579
Unearned revenue	179,935	269,790
Total liabilities	1,568,882	1,397,345
Fund Equity		
Assigned	2,166,450	2,467,934
Total fund equity	2,166,450	2,467,934
Total liabilities and fund equity	\$ 3,735,332	\$ 3,865,279

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

Page 44

	May 31 2014	May 31 2013
Revenue		
Departmental income	\$ 6,705,145	\$ 6,280,365
Intergovernmental charges	376,845	388,494
Use of money and property	603	2,022
Sales of property and compensation for loss	2,052	1,773
State aid	3,780	5,600
Total revenue	7,088,425	6,678,254
Expenditures		
General government support	129,185	118,363
Home and community services	3,950,434	3,430,938
Employee benefits	1,050,943	1,016,652
Debt service - interest expense	-	26,046
Total expenditures	5,130,562	4,591,999
Excess of revenue over expenditures	1,957,863	2,086,255
Other financing sources (uses)		
BANs redeemed from appropriations	-	(207,895)
Operating transfers out	(2,259,347)	(1,211,559)
Total other financing uses	(2,259,347)	(1,419,454)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(301,484)	666,801
Fund equity, beginning of year	2,467,934	1,801,133
Fund equity, end of year	\$ 2,166,450	\$ 2,467,934

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
WATER FUND
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	678,364	711,242
Accounts receivable	835,666	741,094
Due from other funds	54,446	144,372
Total assets	\$ 1,568,516	\$ 1,596,748
Liabilities		
Accounts payable	\$ 48,915	\$ 90,988
Accrued liabilities	61,048	55,069
Due to other funds	5,266	-
Advances from other funds	582,457	462,340
Other liabilities/due to retirement systems	30,996	39,556
Total liabilities	728,682	647,953
Fund Equity		
Assigned	839,834	948,795
Total fund equity	839,834	948,795
Total liabilities and fund equity	\$ 1,568,516	\$ 1,596,748

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - WATER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

	<u>May 31</u> <u>2014</u>	<u>May 31</u> <u>2013</u>
Revenue		
Departmental income	\$ 3,495,727	\$ 3,246,805
Sales of property and compensation for loss	2,052	1,773
Total revenue	<u>3,497,779</u>	<u>3,248,578</u>
Expenditures		
General government support	64,407	59,908
Home and community services	1,840,191	1,729,501
Employee benefits	548,622	493,382
Debt service - interest expense	-	25,248
Total expenditures	<u>2,453,220</u>	<u>2,308,039</u>
Excess of revenue over expenditures	<u>1,044,559</u>	<u>940,539</u>
Other financing sources (uses)		
BANS redeemed from appropriations	-	(35,000)
Operating transfers out	(1,153,520)	(676,783)
Total other financing sources (uses)	<u>(1,153,520)</u>	<u>(711,783)</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(108,961)	228,756
Fund equity, beginning of year	948,795	720,039
Fund equity, end of year	<u>\$ 839,834</u>	<u>\$ 948,795</u>

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - WATER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,588,500	\$ 3,588,500	\$ 3,495,727	\$ -	\$ (92,773)
Sales of property and compensation for loss	-	-	2,052	-	2,052
Total revenue	3,588,500	3,588,500	3,497,779	-	(90,721)
Expenditures					
General government support	137,000	109,259	64,407	-	44,852
Home and community services	1,995,850	2,183,375	1,840,191	159,456	183,728
Employee benefits	554,850	556,821	548,622	-	8,199
Debt service - interest expense	-	-	-	-	-
Total expenditures	2,687,700	2,849,455	2,453,220	159,456	236,779
Excess (deficiency) of revenue over expenditures	900,800	739,045	1,044,559	(159,456)	146,058
Other financing sources (uses)					
Operating transfers out	(952,758)	(952,758)	(1,153,520)	-	(200,762)
Total other financing sources (uses)	(952,758)	(952,758)	(1,153,520)	-	(200,762)
Excess (deficiency) of revenue over expenditures and other financing uses	\$ (51,958)	\$ (213,713)	\$ (108,961)	\$ (159,456)	\$ (54,704)

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SEWER FUND
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash	\$ 495,272	\$ 650,716
Accounts receivable	820,739	723,269
Advances from other funds	20,416	20,416
Due from other funds	103,832	156,289
Total assets	\$ 1,440,259	\$ 1,550,690
Liabilities		
Accounts payable	\$ 73,820	\$ 48,331
Accrued liabilities	50,893	52,561
Advances from other funds	464,105	310,938
Due to other funds	40,015	34,749
Other liabilities/due to other governments	27,022	28,784
Total liabilities	655,855	475,363
Fund Equity		
Assigned	784,404	1,075,327
Total fund equity	784,404	1,075,327
Total liabilities and fund equity	\$ 1,440,259	\$ 1,550,690

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SEWER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

Page 49

	May 31 2014	May 31 2013
Revenue		
Departmental income	\$ 3,111,374	\$ 2,945,372
Intergovernmental charges	376,845	388,494
State aid	3,780	5,600
Total revenue	3,491,999	3,339,466
Expenditures		
General government support	64,778	58,455
Home and community services	2,109,996	1,701,234
Employee benefits	502,321	523,270
Debt service - interest expense	-	798
Total expenditures	2,677,095	2,283,757
Excess of revenue over expenditures	814,904	1,055,709
Other financing sources (uses)		
BANs redeemed from appropriations	-	(172,895)
Operating transfers out	(1,105,827)	(534,776)
Total other financing uses	(1,105,827)	(707,671)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(290,923)	348,038
Fund equity, beginning of year	1,075,327	727,289
Fund equity, end of year	\$ 784,404	\$ 1,075,327

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - SEWER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,185,895	\$ 3,185,895	\$ 3,111,374	\$ -	\$ (74,521)
Intergovernmental charges	275,000	275,000	376,845	-	101,845
State aid	-	-	3,780	-	3,780
Total revenue	3,460,895	3,460,895	3,491,999	-	31,104
Expenditures					
General government support	137,000	111,051	64,778	-	46,273
Home and community services	2,014,638	2,234,812	2,109,996	8,842	115,974
Employee benefits	517,375	522,650	502,321	-	20,329
Debt service - interest expense	-	-	-	-	-
Total expenditures	2,669,013	2,868,513	2,677,095	8,842	182,576
Excess (deficiency) of revenue over expenditures	791,882	592,382	814,904	(8,842)	213,680
Other financing sources (uses)					
Operating transfers out	(868,388)	(868,388)	(1,105,827)	-	(237,439)
Total other financing uses	(868,388)	(868,388)	(1,105,827)	-	(237,439)
Excess (deficiency) of revenue over expenditures and other financing uses	\$ (76,506)	\$ (276,006)	\$ (290,923)	\$ (8,842)	\$ (23,759)

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
REVOLVING LOAN FUND
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash on deposit - Regular accounts	\$ 468,542	\$ 396,663
Rehabilitation loans receivable	100,403	166,952
Total assets	\$ 568,945	\$ 563,615
Liabilities		
Unearned Revenue	\$ 100,691	\$ 166,703
Due to other agency	4,386	4,214
Total liabilities	105,077	170,917
Fund Equity		
Assigned	463,868	392,698
Total fund equity	463,868	392,698
Total liabilities and fund equity	\$ 568,945	\$ 563,615

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - REVOLVING LOAN FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

	May 31	May 31
	2014	2013
Revenue		
Departmental income	\$ 70,589	\$ 62,763
Use of money and property	581	2,012
Total revenue	71,170	64,775
Expenditures		
Home and community services	-	-
Total expenditures	-	-
Excess of revenue over		
expenditures and other uses	71,170	64,775
Fund equity, beginning of year	392,698	327,923
Fund equity, end of year	\$ 463,868	\$ 392,698

**CITY OF OLEAN, NEW YORK
 COMPARATIVE BALANCE SHEETS
 HOUSING REHABILITATION FUND
 AS OF MAY 31, 2014 AND 2013**

	May 31 2014	May 31 2013
Assets		
Cash on deposit - regular accounts	\$ 6,672	\$ 3,195
Due from other funds	30	30
Rehabilitation loans receivable	6,699	7,096
Total assets	\$ 13,401	\$ 10,321
Liabilities		
Unearned Revenue	\$ 6,729	\$ 7,126
Total liabilities	6,729	7,126
Fund Equity		
Assigned	6,672	3,195
Total fund equity	6,672	3,195
Total liabilities and fund equity	\$ 13,401	\$ 10,321

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - HOUSING REHABILITATION FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Revenue		
Departmental income	\$ 3,476	\$ 475
Use of money and property	1	1
Total revenue	3,477	476
Expenditures		
Home and community services	-	-
Total expenditures	-	-
Excess of revenue over expenditures	3,477	476
Excess of revenue over expenditures and other uses	3,477	476
Fund equity, beginning of year	3,195	2,719
Fund equity, end of year	\$ 6,672	\$ 3,195

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
FIRST TIME HOMEBUYERS PROGRAM
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash on deposit - regular accounts	\$ 71,694	\$ 47,942
First time homebuyers loans receivable	72,517	95,963
Total assets	\$ 144,211	\$ 143,905
Liabilities		
Unearned Revenue	\$ 72,515	\$ 95,961
Other liabilities	24	25
Total liabilities	72,539	95,986
Fund Equity		
Assigned	71,672	47,919
Total fund equity	71,672	47,919
Total liabilities and fund equity	\$ 144,211	\$ 143,905

CITY OF OLEAN, NEW YORK

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - FIRST TIME HOMEBUYERS PROGRAM
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013**

	May 31 2014	May 31 2013
Revenue		
Departmental income	\$ 23,979	\$ 24,950
Use of money and property	21	9
Total revenue	24,000	24,959
Expenditures		
Home and community services	247	203
Total expenditures	247	203
Excess of revenue over expenditures	23,753	24,756
Excess of revenue over expenditures and other uses	23,753	24,756
Fund equity, beginning of year	47,919	23,163
Fund equity, end of year	\$ 71,672	\$ 47,919

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
AS OF MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Assets		
Cash on deposit - regular accounts	\$ 1,914,399	\$ 3,733,181
Accounts receivable	-	1,786
Due from Federal and State	504,815	1,004,814
Due from other funds	421,473	9,749
Total assets	\$ 2,840,687	\$ 4,749,530
Liabilities		
Accounts payable	\$ 565,486	\$ 447,934
Accrued liabilities/due to other governments	100,000	100,000
Due to other funds	357,842	357,842
Total liabilities	1,023,328	905,776
Fund Equity		
Restricted	2,466,763	4,165,272
Unassigned (deficit)	(649,404)	(321,518)
Total fund equity (deficit)	1,817,359	3,843,754
Total liabilities and fund equity	\$ 2,840,687	\$ 4,749,530

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - CAPITAL PROJECTS FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

Page 58

	May 31	May 31
	2014	2013
Revenue		
Use of money and property	\$ 1,934	\$ 4,327
Miscellaneous local sources	200,380	182,161
Federal aid	20,897	199,040
State aid	482,274	1,461,951
Total revenue	705,485	1,847,479
Expenditures		
General government support	566,886	649,968
Public safety	170,864	103,535
Transportation	1,263,480	4,326,810
Culture and recreation	-	6,647
Home and community services	2,636,703	788,049
Total expenditures	4,637,933	5,875,009
Deficiency of revenue over expenditures	(3,932,448)	(4,027,530)
Other financing sources (uses)		
Bond anticipation notes redeemed from appropriations	-	237,895
Proceeds from issuance of serial bonds - construction	-	10,981,059
Proceeds from capital leases	324,245	-
Operating transfers in	1,970,000	2,716,541
Operating transfers out	(388,192)	(19,000)
Total other financing sources	1,906,053	13,916,495
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(2,026,395)	9,888,965
Fund equity (deficit), beginning of year	3,843,754	(6,045,211)
Fund equity, end of year	\$ 1,817,359	\$ 3,843,754

CITY OF OLEAN, NEW YORK

**BALANCE SHEET - CAPITAL PROJECTS FUND - BY PROJECT
AS OF MAY 31, 2014**

Project Number	Description	Cash	Due from Federal & State	Due from/(to) Other Funds	Total Assets	Accounts Payable & Accrued Expenses	Fund Equity (Deficit)	Total Liabilities & Fund Equity
29	CHIPS	\$ 13,142	\$ -	\$ (13,142)	\$ -	\$ -	\$ -	\$ -
87	Landfill - Olean Airport	57,292	-	-	57,292	-	57,292	57,292
101	ALARM	23,257	-	-	23,257	-	23,257	23,257
102	Vehicle replacement	132,133	-	67,024	199,157	-	199,157	199,157
103	Police Equipment Replacement	39,990	-	-	39,990	-	39,990	39,990
116	Fire arson equipment	11,471	-	-	11,471	-	11,471	11,471
117	Dispatch project	4,564	-	-	4,564	-	4,564	4,564
118	Ambulance reserve	112,908	-	-	112,908	-	112,908	112,908
119	OATS Bus Reserve	23,223	-	-	23,223	-	23,223	23,223
120	Water filtration plant	15,707	-	-	15,707	-	15,707	15,707
123	Catch basin disconnect project	313,703	-	34,749	348,452	100,000	248,452	348,452
132	Parking lot maintenance program	23,226	-	-	23,226	-	23,226	23,226
133	Parking lots repaving & rehab	51,629	-	-	51,629	-	51,629	51,629
137	Telephone System	4,000	-	-	4,000	-	4,000	4,000
145	Two Mile Sewer	237,520	-	-	237,520	-	237,520	237,520
146	Airport Master Plan	70,495	1,595	-	72,090	150,379	(78,289)	72,090
149	Bartlett House Renovations	(11,752)	-	-	(11,752)	-	(11,752)	(11,752)
150	Sidewalk Improvement Reserve	12,106	-	-	12,106	-	12,106	12,106
151	Fire Hall Relocation	(3,478)	-	-	(3,478)	-	(3,478)	(3,478)
153	East State Street and East End Sewer	(574,078)	500,000	-	(74,078)	-	(74,078)	(74,078)
155	Courtroom Repairs	(8,403)	-	-	(8,403)	-	(8,403)	(8,403)
156	Wastewater Plant Belt Press Reserve	5,000	-	-	5,000	-	5,000	5,000
157	Narrow Band Radio Upgrade	16,062	-	-	16,062	-	16,062	16,062
158	Traffic Signal Upgrade Project	17,000	-	-	17,000	-	17,000	17,000
159	Rec Center Compressor Reserve	93,353	-	-	93,353	-	93,353	93,353
160	Downtown Facilities Upgrades	825,953	-	(25,000)	800,953	154,151	646,802	800,953
161	Other Miscellaneous Reserves	575	-	-	575	-	575	575
162	Brownfield Opportunity Areas Program	(92,743)	3,220	-	(89,523)	54,166	(143,689)	(89,523)
163	Waste Water Treatment Plant Master Plan	(211,167)	-	-	(211,167)	107,804	(318,971)	(211,167)
165	Bradner Stadium Project	586,955	-	-	586,955	98,486	488,469	586,955
166	Franchot Playground	(5,531)	-	-	(5,531)	-	(5,531)	(5,531)
167	North Union Street Rehabilitation	(4,713)	-	-	(4,713)	500	(5,213)	(4,713)
168	Homer Street Playground	60,000	-	-	60,000	-	60,000	60,000
169	Olean Creek Pedestrian Crossing	50,000	-	-	50,000	-	50,000	50,000
170	Property Reevaluation	25,000	-	-	25,000	-	25,000	25,000
Totals		\$ 1,914,399	\$ 504,815	\$ 63,631	\$ 2,482,845	\$ 665,486	\$ 1,817,359	\$ 2,482,845

CITY OF OLEAN, NEW YORK
SCHEDULE OF EXPENDITURES-
CAPITAL PROJECTS FUND - BY PROJECT
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

Page 60

Project	May 31 2014	May 31 2013
CHIPS	\$ 612,940	\$ 584,597
Vehicle Replacement	815,068	417,656
Dispatch Project	-	6,507
Police Equipment Replacement Reserve	32,558	-
Water Filtration Plant	1,178	-
Catch Basin Disconnect Project	-	6,972
Odor Control/Air Make-up Units	-	36,059
Parking Lot Maintenance	-	1,090
Parking Lot Repaving and Rehabilitation	-	968
Energy Audit	-	138,592
East Olean Sewer	-	200,961
Two Mile Sewer	242,360	68,937
Airport Master Plan	194,139	198,557
Safe Routes to Schools	-	2,744
Sidewalk Improvement Reserve	42,327	20,720
East State Street and East End Sewer	126,943	3,465,054
Woodview Avenue Paving Project	-	398
HVAC Reserve	-	38,000
Bartlett House Renoavtions	35,199	57,303
Rec Center Compressor Reserve	-	6,647
Fire Hall Relocation	-	3,478
Courtroom Repairs	58,028	375
Waste Water Plant Belt Press	-	35,000
Narrow Band Radio Upgrade	-	96,938
Downtown Facilities Upgrade	659,292	193,956
Brownfield Opportunity Areas Program	163,854	113,466
Waste Water Treatement Plant Master Plan	215,083	103,888
Bradner Stadium Project	1,085,384	76,146
North Union Street Rehabilitation	5,213	-
Ambulance Reserve	112,836	-
Chestnut Street Development	150,000	-
Franchot Playground	85,531	-
	\$ 4,637,933	\$ 5,875,009

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
DEBT SERVICE FUND
AS OF MAY 31, 2014 AND 2013

	<u>May 31</u> <u>2014</u>	<u>May 31</u> <u>2013</u>
Assets		
Cash on deposit		
Restricted regular accounts	\$ 263,074	\$ 106,035
Due from other funds	1,533	-
Total assets	<u>\$ 264,607</u>	<u>\$ 106,035</u>
Liabilities		
Due to other funds	<u>\$ 59,242</u>	<u>\$ 63,368</u>
Total liabilities	<u>59,242</u>	<u>63,368</u>
Fund Equity		
Restricted	<u>205,365</u>	<u>42,667</u>
Total fund equity	<u>205,365</u>	<u>42,667</u>
Total liabilities and fund equity	<u>\$ 264,607</u>	<u>\$ 106,035</u>

CITY OF OLEAN, NEW YORK
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - DEBT SERVICE FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2014 AND 2013

	May 31 2014	May 31 2013
Revenue		
Use of money and property	\$ 127	\$ 123
Sale of property & compensation for loss	-	30
Total revenue	127	153
Expenditures		
Debt service:		
Principal	1,891,441	1,368,493
Interest	651,198	672,788
Total expenditures	2,542,639	2,041,281
Deficiency of revenue over expenditures	(2,542,512)	(2,041,128)
Other financing sources		
Proceeds from serial bonds - refunding	-	5,265,339
Payment for refunding of bonds	-	(5,265,339)
Operating transfers in	2,705,210	1,702,145
Total other financing sources	2,705,210	1,702,145
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	162,698	(338,983)
Fund equity, beginning of year	42,667	381,650
Fund equity, end of year	\$ 205,365	\$ 42,667

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
AGENCY FUND
AS OF MAY 31, 2014 AND 2013

	May 31		May 31
	2014		2013
Assets			
Cash on deposit			
Regular accounts	\$ 138,231	\$	109,360
Restricted accounts	136,121		143,804
Due from other funds	13,248		2,716
Total assets	\$ 287,600	\$	255,880
Liabilities			
Due to other funds	\$ 4,247	\$	9,513
Other liabilities	283,353		246,367
Total liabilities	\$ 287,600	\$	255,880

CITY OF OLEAN, NEW YORK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND BALANCES - AGENCY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2014

	Balance June 1, 2013	Receipts	Disbursements	Balance May 31, 2014
Hospitalization	\$ 1,975	\$ 595,507	\$ 592,280	\$ 5,202
Charity - United Way	165	335	390	110
Guarantee & Bid Bonds	500	-	-	500
Tree Cut Tree Service Inc.	352	3,402	-	3,754
Tree Cut Tree Service Inc.	251	3,752	252	3,751
Building Improvement Fund-HDCP	459	-	-	459
Children's Memorial Flower Grdn	15	-	-	15
Stadium Renovations / Donations	2,286	-	888	1,398
Y&R St. John's	7,274	-	-	7,274
Mayor's Cup Golf Tournament	544	1,275	1,000	819
Bike Auction	9,119	1,033	-	10,152
Neighborhood Preservation	-	3,000	2,600	400
Miscellaneous Recreation	14,530	16,474	14,105	16,899
Clerk Sales	1,583	-	-	1,583
Bartlett House Donations	14,127	1,445	1,069	14,503
Bartlett House Donations	5,000	-	5,000	-
Bartlett House Donations	16,766	-	5,165	11,601
Police Drugs Donations	575	3,255	1,121	2,709
Police Federal Drug Proceeds	4,423	36,463	11,634	29,252
Youth Programs Donations	57	-	-	57
DARE	510	-	510	-
Youth Court Donations	7,303	-	260	7,043
Tree Program	10,294	517	950	9,861
Interest & Service Charges	639	66	-	705
Personnel	1,450	-	429	1,021
Fire Equipment Donations	9,164	-	-	9,164
Flexible Spending Account	(8,274)	-	-	(8,274)
Medical Savings Account	135,359	123,153	121,257	137,255
Payroll Account	8,883	10,249,202	10,243,121	14,964
Special Account	1,038	17,080	16,942	1,176
Totals	\$ 246,367	\$ 11,055,959	\$ 11,018,973	\$ 283,353

CITY OF OLEAN, NEW YORK
SCHEDULE OF FUNDING PROGRESS
AS OF MAY 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL)	Unfunded Actuarial Liability ("UAAL)	Funded Ratio	Budgeted Covered Payroll	Ratio of UAAL to Budgeted Covered Payroll
June 1, 2012	\$ -	\$ 1,336,369	\$ 1,336,369	\$ -	\$ -	N/A
June 1, 2013	\$ -	\$ 514,979	\$ 514,979	\$ -	\$ -	N/A



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

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

We have audited 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, the financial statements of the governmental activities and each major fund of *City of Olean, New York* as of and for the year ended c, and the related notes to the financial statements, which collectively comprise *City of Olean, New York's* basic financial statements and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered *City of Olean, New York's* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *City of Olean, New York's* internal control. Accordingly, we do not express an opinion on the effectiveness of *City of Olean, New York* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified four deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items II.A.2014-001, II.A.2014-002, II.A.2014-003 and II.A.2014-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *City of Olean, New York's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

City of Olean's Response to Findings

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

Other Matters

We noted other matters involving internal control over financial reporting that we have reported to management of *City of Olean, New York* in a separate letter dated December 8, 2014.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not provided an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 8, 2014**

I. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of *City of Olean, New York*.
2. Four material weaknesses relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These material weaknesses are reported in the accompanying schedule of findings and questioned costs as items II.A.2014-001, II.A.2014-002, II.A.2014-003 and II.A.2014-004.
3. No instances of noncompliance material to the financial statements of *City of Olean, New York* were disclosed during the audit as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. A single audit in accordance with OMB Circular A-133 was not required during the fiscal year ended May 31, 2014, as the City's expenditures of Federal Awards were below \$500,000.

II. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. Internal Control over Financial Reporting

2014-001 Federal and State Grants

Year ended May 31, 2014

Condition and criteria: The City has a process whereby the Departments that receive Federal and State grants are responsible for carrying out the conditions of the grant, including the completion and filing of claims for reimbursement. We noticed that when claims for reimbursement are filed with the Federal and State governments, there is a lack of communication with the City Auditor's Office, who is ultimately the Department that receives the reimbursements. This circumstance could lead to a situation whereby the funding requested is not received and requires additional follow-up with the Federal or State grantors. This could also lead to situations where grant funding does not fully cover expenditures of the City, resulting in the general fund incurring such costs. In the current year, the City incurred costs in its CHIPS capital project that exceeded the grant funding, requiring approximately \$345,000 of expenditures to be covered by the general fund which contributed to an unfavorable budget variance of approximately \$346,000 (including year-end encumbrances) in the Resurfacing and Street Materials account.

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

Auditors' Recommendations: During the current year the City developed a worksheet that is intended to track Federal and State grants and improve the communication between all departments. The City should ensure that all grants are included on this worksheet and consider reviewing this worksheet as part of its regularly scheduled management meetings. Cash received from the Federal and State government should then be closely monitored and compared with these schedules, with follow-ups performed on any discrepancies.

City's Response: The City has developed a formalized system so that such information is provided to the City Auditor for monitoring. It has been implemented for a small sample of grants. The City will utilize that tracking for budgetary and spending purposes to ensure grants do not become overspent in the future.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

2014-002 Segregation of Duties – Bank Reconciliations

Year Ended May 31, 2014

Conditions and Criteria: The City showed improvement with respect to the bank reconciliation process in the current year, as the City contracted with an independent party, who on a monthly basis reviewed transactions on bank statements and within the bank reconciliations. The step that was missing in the process during the current year was that the bank reconciliations for each cash account were not compared to the City's general ledger software.

Effect: The effect of not comparing bank reconciliations against the City's general ledger balance is that reporting errors in posting cash receipts and cash disbursements can occur and not be detected or resolved in a timely manner.

Auditors' Recommendation: As part of the bank reconciliation review, the City's general ledger cash balances should be compared against the bank reconciliation, with any differences being immediately investigated. Once complete, both the reviewer and the preparer should initial and date the bank reconciliations once completed.

City's Response: During the current year, the City had an independent party review bank statement transactions on a monthly basis. The step of agreeing the bank reconciliation to the general ledger will be added to his monthly procedures. In addition, once performed, both the preparer and reviewer will initial and date the bank reconciliation.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (continued)

A. Internal Control over Financial Reporting (continued)

2014-003 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year Ended May 31, 2014

Condition and Criteria: During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the City properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording receivables, payables, deferred liabilities, and converting to the full accrual method for GASB 34 purposes. In addition, a draft of the financial statements was prepared by the auditors and accepted by the City.

Effect: AU-C Section 265 entitled Communicating Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without this assistance, the potential risk exists of the District's financial statements not conforming to GAAP.

Auditors' Recommendation: Although auditors may continue to provide such assistance both now and in the future, under this pronouncement, the City should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

City's Response: The City has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit and will continue to review similar information in future years. Further, the City believes it has a thorough understanding of these financial statements and has the ability to make informed judgments based on these financial statements.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

2014-004 Reconciliation of General Ledger

Year Ended May 31, 2014

Condition and Criteria: During our audit, we noted that the City does not perform reconciliations of asset and liability accounts during the year on a regular or routine basis. We should mention, however, that interfund receivable and payable accounts (due from/due to accounts) were used less frequently during the current year and required less analysis and adjustment at year-end.

Effect: Without regular and routine reconciliation of asset and liability accounts balances, a significant misstatement in the general ledger of the City would go undetected for extended periods of time and could result in inaccurate or incomplete information which is ultimately utilized by management in its decision making process throughout the year, including the establishments of annual budgets.

Auditors' Recommendation: We recommend that asset and liability accounts be reconciled by the City Auditor's office on a regular and routine basis. Further, reconciliations should be reviewed by management to ensure their accurate and timely completion.

City's Response: The City Auditor's office will take the necessary steps to remedy this issue. A reconciliation of all asset and liability balances will be performed on a monthly basis. Additionally the City will take the necessary steps to ensure the general ledger packages reconcile and agree to one another on a regular basis.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (continued)

B. Compliance

Year ended May 31, 2014

There are no compliance findings being reported upon for the fiscal year ended May 31, 2014.

Year ended May 31, 2013

There were no compliance findings reported upon for the fiscal year ended May 31, 2013.

CITY OF OLEAN, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED MAY 31, 2014

<u>PROGRAM TITLE</u>	<u>NYSDOT CONTRACT NUMBER</u>	<u>EXPENDITURES</u>
Airport Improvement Program	PIN 5904.44	\$ 22,281
Consolidated Highway Improvement Program (CHIPS)	N/A	<u>419,582</u>
TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED		\$ <u>441,863</u>

Note 1 - Basis of Presentation

The accompanying Schedule of State Transportation Assistance Expended includes Federal and State grant activity of the City of Olean, New York and is presented on the modified accrual basis of accounting. The information in the Schedule is presented in accordance with Draft Part 43 NYCRR. Therefore some amounts in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

GENERAL

The accompanying Schedule of State Transportation Assistance Expended of City of Olean, New York, presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Assistance Expended includes Federal and State grant activity that passes through the New York State Department of Transportation and is presented using the modified accrual basis of accounting.

The amounts reported in the Schedule of State Transportation Assistance Expended generally were obtained from the appropriate financial reports for the applicable program and periods. The amounts reported in the financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

INDIRECT COSTS

There are no indirect costs associated with these programs.

MATCHING COSTS

Matching costs, i.e., the City's share of certain program costs, are not included in the reported expenditures.

AMOUNTS PAID TO SUBRECIPIENTS

There were no amounts paid to subrecipients during the fiscal year ended May 31, 2014.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND CONTROLS OVER
STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT
AUDITING STANDARDS"**

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

Compliance

We have audited the compliance of the *City of Olean, New York* with the types of compliance requirements described in Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended May 31, 2014. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of the *City of Olean, New York's* management. Our responsibility is to express an opinion on the *City of Olean, New York's* compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. These standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the *City of Olean, New York's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Olean, New York's* compliance with those requirements.

In our opinion, the *City of Olean, New York* complied in all material respects with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended May 31, 2014.

Internal Control Over Compliance

The management of the *City of Olean, New York* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs tested. In planning and performing our audit, we considered the *City of Olean, New York's* internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on the internal control over compliance in accordance with Draft Part 43 NYCRR.

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

A control deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items I.2014-001, I.2014-002, I.2014-003 and I.2014-004 to be material weaknesses.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the *City of Olean, New York* as of and for the year ended May 31, 2014, and have issued our report thereon dated December 8, 2014. Our audit was performed for the purpose of forming an opinion on the *City of Olean, New York's* financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

City of Olean's Responses to Findings

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

Other Matters

We noted other matters that we have reported to management of *City of Olean, New York* in a separate letter dated December 8, 2014.

Purpose of the Report

This report is intended solely for the information and use of the *City of Olean, New York's* management and the New York State Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 8, 2014**

CITY OF OLEAN, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED MAY 31, 2014

Summary of Audit Results:

Internal control over state transportation assistance expended:

- Material weaknesses identified Findings I.2014-001, I.2014-002, I.2014-003 and I.2014-004
- Deficiencies identified that are not considered to be material weakness None reported

Type of auditors' report issued on compliance for programs tested: Unqualified

Identification of State Transportation Assistance Programs Tested:

Name

Consolidated Highway Improvement Program (CHIPS)

Compliance Findings and Questioned Costs:

No matters were reported.

CITY OF OLEAN, NEW YORK
SUMMARY OF SCHEDULE OF AUDIT FINDINGS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED MAY 31, 2014

Page 77

I. Internal Control Over State Transportation Assistance Expended

2014-001 Federal and State Grants

Year ended May 31, 2014

Condition and criteria: The City has a process whereby the Departments that receive Federal and State grants are responsible for carrying out the conditions of the grant, including the completion and filing of claims for reimbursement. We noticed that when claims for reimbursement are filed with the Federal and State governments, there is a lack of communication with the City Auditor's Office, who is ultimately the Department that receives the reimbursements. This circumstance could lead to a situation whereby the funding requested is not received and requires additional follow-up with the Federal or State grantors. This could also lead to situations where grant funding does not fully cover expenditures of the City, resulting in the general fund incurring such costs. In the current year, the City incurred costs in its CHIPS capital project that exceeded the grant funding, requiring approximately \$345,000 of expenditures to be covered by the general fund which contributed to an unfavorable budget variance of approximately \$346,000 (including year-end encumbrances) in the Resurfacing and Street Materials account.

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

Auditors' Recommendations: During the current year the City developed a worksheet that is intended to track Federal and State grants and improve the communication between all departments. The City should ensure that all grants are included on this worksheet and consider reviewing this worksheet as part of its regularly scheduled management meetings. Cash received from the Federal and State government should then be closely monitored and compared with these schedules, with follow-ups performed on any discrepancies.

City's Response: The City has developed a formalized system so that such information is provided to the City Auditor for monitoring. It has been implemented for a small sample of grants. The City will utilize that tracking for budgetary and spending purposes to ensure grants do not become overspent in the future.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

2014-002 Bank Reconciliations

Year Ended May 31, 2014

Conditions and Criteria: The City showed improvement with respect to the bank reconciliation process in the current year, as the City contracted with an independent party, who on a monthly basis reviewed transactions on bank statements and within the bank reconciliations. The step that was missing in the process during the current year was that the bank reconciliations for each cash account were not compared to the City's general ledger software.

Effect: The effect of not comparing bank reconciliations against the City's general ledger balance is that reporting errors in posting cash receipts and cash disbursements can occur and not be detected or resolved in a timely manner.

Auditors' Recommendation: As part of the bank reconciliation review, the City's general ledger cash balances should be compared against the bank reconciliation, with any differences being immediately investigated. Once complete, both the reviewer and the preparer should initial and date the bank reconciliations once completed.

City's Response: During the current year, the City had an independent party review bank statement transactions on a monthly basis. The step of agreeing the bank reconciliation to the general ledger will be added to his monthly procedures. In addition, once performed, both the preparer and reviewer will initial and date the bank reconciliation.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

CITY OF OLEAN, NEW YORK
SUMMARY OF SCHEDULE OF AUDIT FINDINGS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED MAY 31, 2014

Page 78

I. Internal Control Over State Transportation Assistance Expended (continued)

2014-003 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year Ended May 31, 2014

Condition and Criteria: During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the City properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording receivables, payables, deferred liabilities, and converting to the full accrual method for GASB 34 purposes. In addition, a draft of the financial statements was prepared by the auditors and accepted by the City.

Effect: AU-C Section 265 entitled Communicating Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without this assistance, the potential risk exists of the City's financial statements not conforming to GAAP.

Auditors' Recommendation: Although auditors may continue to provide such assistance both now and in the future, under this pronouncement, the City should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

City's Response: The City has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit and will continue to review similar information in future years. Further, the City believes it has a thorough understanding of these financial statements and has the ability to make informed judgments based on these financial statements.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.

2014-004 Reconciliation of General Ledger

Year Ended May 31, 2014

Condition and Criteria: During our audit, we noted that the City does not perform reconciliations of asset and liability accounts during the year on a regular or routine basis. We should mention, however, that interfund receivable and payable accounts (due from/due to accounts) were used less frequently during the current year and required less analysis and adjustment at year-end.

Effect: Without regular and routine reconciliation of asset and liability accounts balances, a significant misstatement in the general ledger of the City would go undetected for extended periods of time and could result in inaccurate or incomplete information which is ultimately utilized by management in its decision making process throughout the year, including the establishments of annual budgets.

Auditors' Recommendation: We recommend that asset and liability accounts be reconciled by the City Auditor's office on a regular and routine basis. Further, reconciliations should be reviewed by management to ensure their accurate and timely completion.

City's Response: The City Auditor's office will take the necessary steps to remedy this issue. A reconciliation of all asset and liability balances will be performed on a monthly basis. Additionally the City will take the necessary steps to ensure the general ledger packages reconcile and agree to one another on a regular basis.

Year ended May 31, 2013

Similar finding was reported upon during the year ended May 31, 2013.



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

Ladies and Gentlemen:

We have completed our 2013-14 audit of the City's financial statements and have issued our reports thereon dated December 8, 2014. Our audit report expressed opinion which states that the City's financial statements are in accordance with generally accepted accounting principles (except for not having a current appraisal to substantiate fixed assets) for governments.

In planning and performing our audit of the financial statements of the *City of Olean, New York* for the fiscal year ended May 31, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. As noted within the body of such reports, the City generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

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

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
December 8, 2014**

Financial Plan

The City should continue to prepare projections of future revenue and expenditures and should consider developing a three to five year financial plan. This plan is particularly important as a result of the potential for future declines in Federal and State aid, increases in contractual expenditures and increases in retirement system contribution rates. We realize that such a plan will require the use of estimates and assumptions of information such as the amount of expected Federal and State Aid, expected rate increase in retirement systems and health insurance, potential increase in salaries, etc. However, we believe this plan could be a very useful tool that the City can utilize when negotiating employee contracts, setting future tax rates, purchasing future equipment, making improvements to infrastructure, establishing reserves and utilizing fund balance.

Allocation of Salaries and Benefits

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

Journal entries and wire transfers

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

Debt Service Reserve

Over the years, the City has earned interest and premiums related to bond proceeds issued to fund capital projects. During the close out of capital projects these funds have been transferred to the City's debt service fund and are required to be utilized in the future towards debt service principal and interest payments. During the current fiscal year, the City made a debt service payment from reserve funds. We recommend that the City consider developing a worksheet which outlines a plan for when the funds will be utilized and applied against future years' debt service payments.

Fixed Assets

Capitalization Thresholds

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

Fixed Asset Reconciliation

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

Policies and Procedures

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

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

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

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

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

First Time Homebuyers and Trust and Agency Receipts

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

Agency Fund

Reconciliation of Medical Savings Account

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

Adequacy of Account Activity

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

Disbursements

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

Equipment and Inventory

The City reports approximately \$55 million of capital assets. The most significant dollar amount of these assets consists of the City buildings, infrastructure and capital improvements that are not as susceptible to the risk of loss or misuse. Assets that are more susceptible to such risk include equipment and inventory items. It is extremely important for the City to be aware of the risks associated with these assets and have processes in place to safeguard against their loss or misuse. Internal controls that the City may consider the following:

- Continued updating of the City's fixed asset and inventory additions and disposals within its asset database;
- Obtaining a full independent appraisal every few years, that would compare the assets listed within the database compared with those physically counted;
- Maintaining a perpetual inventory system for higher risk equipment and inventory items;
- Periodically perform random spot checks of equipment and inventory and compare to asset database;
- Performing annual physical inventory counts and investigating any differences between the appraisal/inventory reports and physical count;
- Obtaining mileage logs and purchases records to determine reasonableness of gasoline usage.

Accumulated Deficit –Capital Project Fund

The *City of Olean, New York's* capital project fund had multiple projects with accumulated deficits of as of May 31, 2014. The projects with accumulated deficits were Bartlett House Renovations, Fire Hall Relocation, East State Street and East End Sewer and Courtroom Repairs. As a result, the City will be required to transfer funds from its general fund to cover its local share and to eliminate this capital project deficit.

Technology

In an ever changing technological society the City should continue to monitor the risks associated with technology so that key operational and financial data are safeguarded. Some of the general and application IT controls that should continue to be considered include the following:

- Procedures for developing, testing, documenting, reviewing, and approving systems or program changes and subsequent modification.
- Controls over access to computer equipment, software and data contained therein.
- Disaster/recovery plans, including backup procedures, off-site storage, and contingency planning.
- Developing formal procedures and guidelines for tasks performed by IT staff.
- Formal documentation of IT policies and processes.
- Identifying those individuals who have access within accounting systems and routinely monitoring such access.

We recommend that the City continue to consider its technology risks and how such risks are mitigated.

GASB 68 - Accounting and Financial Reporting for Pensions

The Government Accounting Standards Board issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Statement No. 68 will be effective for the City in the fiscal year ending May 31, 2016. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

Currently, governments must only report as an expenditure the amount of their required contribution based on current contribution rates. The new standard will require the City to report in their government-wide financial statements their proportionate share of the net pension liability of the pension systems (ERS and PFRS Systems). The net pension liability is equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees and their beneficiaries. The City should begin to familiarize itself with this new GASB and calculate its impact once projected net pension liabilities are calculated and communicated by the Teacher and Employee Retirement Systems. Once an evaluation is made, the City should begin to educate the users of the financial statements as to the new Statement's impact.

STATISTICAL SECTION

City of Olean

General Governmental Expenditures by Function

Governmental Funds(excludes bond refunding)

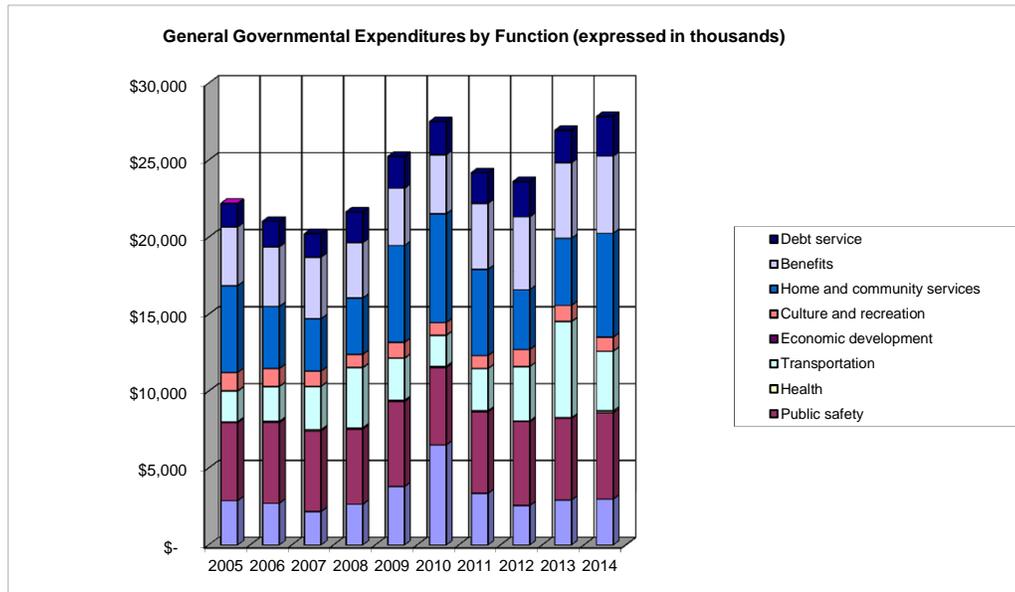
Last Ten Fiscal Years

(amounts expressed in thousands)

Function

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General government support	\$ 2,885	\$ 2,716	\$ 2,173	\$ 2,648	\$ 3,799	\$ 6,504	\$ 3,359	\$ 2,564	\$ 2,923	\$ 2,980
Public safety	5,063	5,239	5,244	4,890	5,534	5,036	5,303	5,447	5,310	5,618
Health	72	82	84	85	74	86	59	55	33	122
Transportation	1,981	2,267	2,810	3,902	2,731	2,002	2,752	3,540	6,252	3,879
Economic development	26	15	15	15	15	15	-	-	15	-
Culture and recreation	1,193	1,157	981	857	1,027	817	845	1,106	1,043	915
Home and community services	5,637	4,037	3,411	3,661	6,285	7,065	5,601	3,884	4,354	6,743
Benefits	3,808	3,860	3,991	3,592	3,715	3,828	4,282	4,724	4,906	5,006
Debt service	1,530	1,660	1,512	1,997	2,065	2,151	1,984	2,289	2,093	2,567
Total	\$ 22,195	\$ 21,033	\$ 20,221	\$ 21,647	\$ 25,245	\$ 27,504	\$ 24,185	\$ 23,609	\$ 26,929	\$ 27,830

Source: City of Olean Annual Report (2005-2014)



City of Olean

General Governmental Revenues by Source

Governmental Funds(excludes bond refunding)

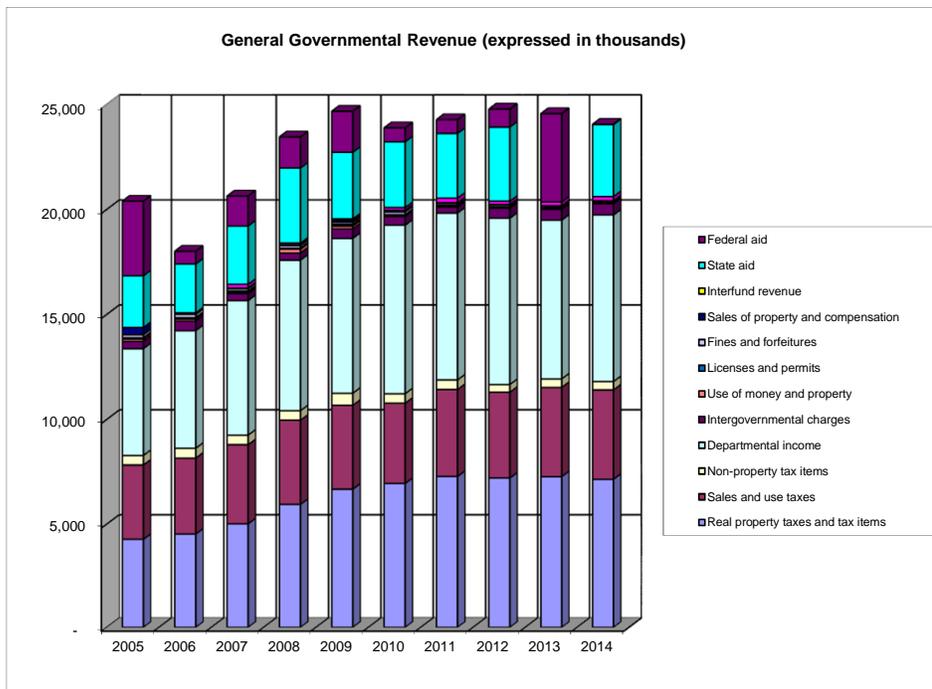
Last Ten Fiscal Years

(amounts expressed in thousands)

Source

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Real property taxes and tax items	\$ 4,262	\$ 4,518	\$ 5,013	\$ 5,954	\$ 6,679	\$ 6,953	\$ 7,284	\$ 7,211	\$ 7,278	\$ 7,150
Sales and use taxes	3,569	3,642	3,784	4,009	3,995	3,822	4,142	4,087	4,249	4,255
Non-property tax items	455	468	454	452	572	450	455	364	401	398
Departmental income	5,082	5,599	6,409	7,169	7,374	8,023	7,946	7,919	7,558	7,933
Intergovernmental charges	359	464	327	339	457	416	286	481	523	538
Use of money and property	104	95	70	189	127	44	36	29	19	10
Licenses and permits	59	64	54	52	78	38	62	47	47	41
Fines and forfeitures	142	150	110	108	96	131	90	94	82	73
Sales of property and compensation	347	21	37	33	92	83	13	5	14	13
Miscellaneous local sources	-	55	175	89	77	126	221	155	182	200
Interfund revenue	-	-	-	-	-	-	-	-	-	-
Bad debt expense	-	59	-	-	-	-	-	-	-	-
State aid	2,460	2,324	2,774	3,575	3,170	3,130	3,082	3,528	4,204	3,424
Federal aid	3,551	606	1,426	1,481	1,955	667	658	856	339	21
	<u>\$20,390</u>	<u>\$18,065</u>	<u>\$20,633</u>	<u>\$23,450</u>	<u>\$24,672</u>	<u>\$23,883</u>	<u>\$24,275</u>	<u>\$24,776</u>	<u>\$24,896</u>	<u>\$24,056</u>

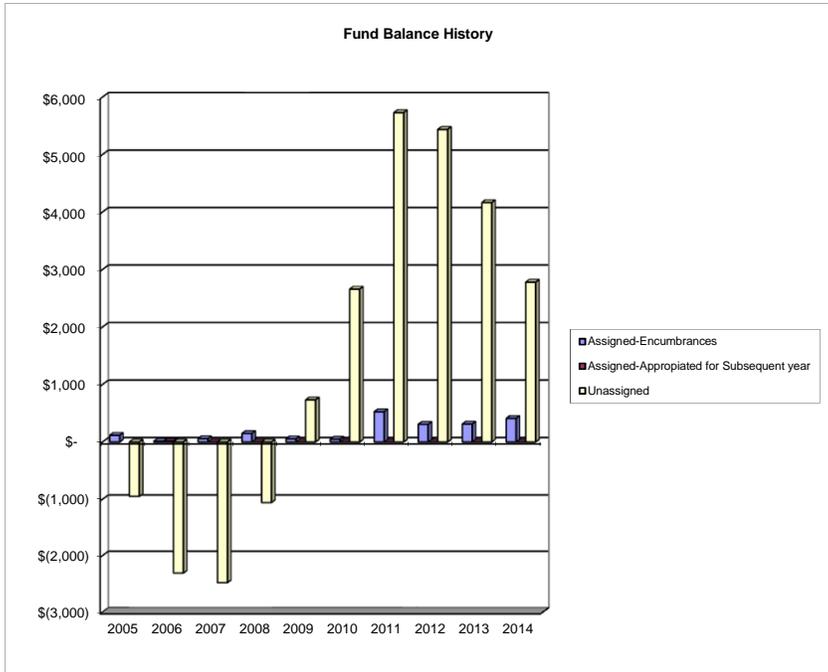
Source: City of Olean Annual Report (2005-2014)



City of Olean
Fund Balance History
 General Fund

Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>Source</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Assigned-Encumbrances	\$ 116	\$ 14	\$ 59	\$ 148	\$ 55	\$ 49	\$ 525	\$ 307	\$ 312	\$ 411
Assigned-Appropriated for Subsequent year		15	-	-	-	-	-	-	-	-
Unassigned	(949)	(2,309)	(2,480)	(1,058)	732	2,658	5,728	5,437	4,164	2,780
Total	\$ (833)	\$ (2,280)	\$ (2,421)	\$ (910)	\$ 787	\$ 2,707	\$ 6,253	\$ 5,744	\$ 4,476	\$ 3,191



Source: City of Olean Annual Report (2005-2014)

Assessed and Equalized Full Value of Taxable Property (1)

Last Ten Fiscal Years
(amounts expressed in thousands)

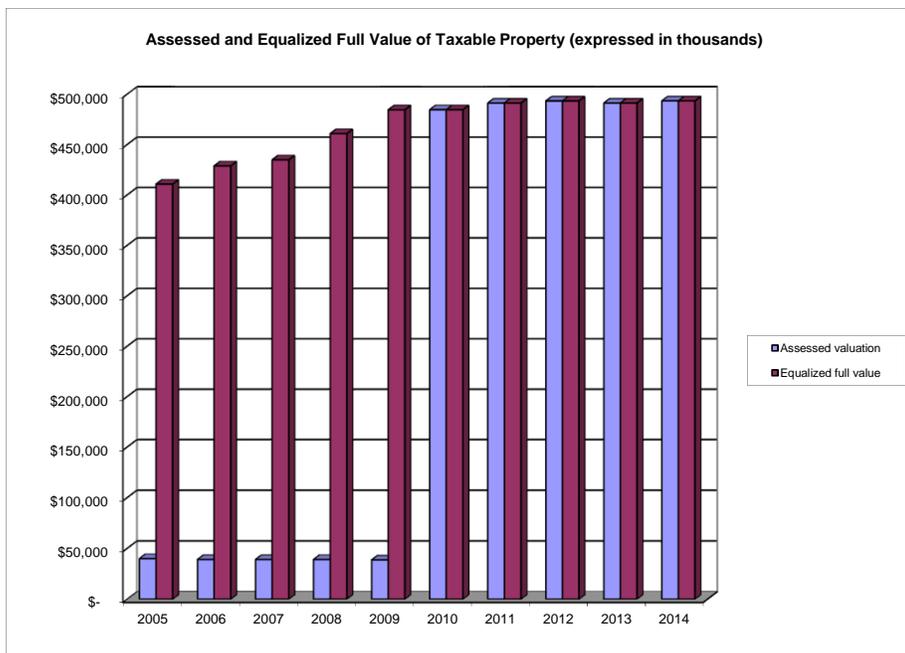
Source

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assessed valuation	\$ 40,052	\$ 39,154	\$ 39,141	\$ 39,178	\$ 38,725	\$ 484,646	\$ 491,202	\$ 493,281	\$ 491,211	\$ 493,323
Equalized full value	410,790	428,850	434,900	460,918	484,520	484,646	491,202	493,281	491,211	493,323
Ratio: Assessed value to equalized full value	9.75%	9.13%	9.00%	8.50%	8.00%	7.99%	100.00%	100.00%	100.00%	100.00%

Notes:

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

Source: City of Olean Annual Report (2005-2014)



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

Last Ten Fiscal Years

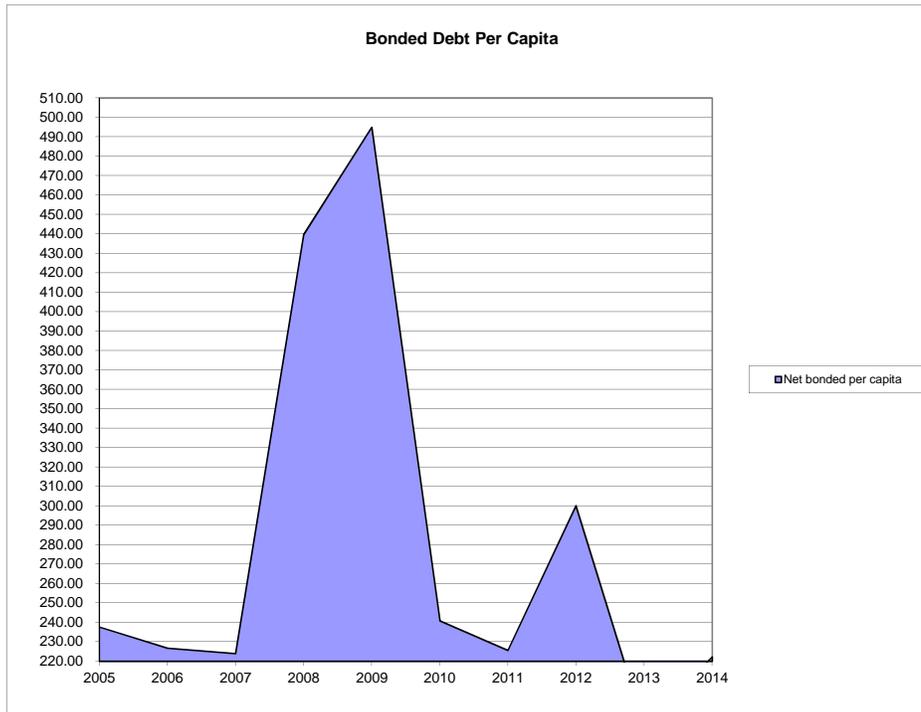
<u>Source</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net bonded per capita	237.57	226.75	223.95	439.70	494.82	240.76	225.57	300.03	186.62	222.25
Population	15,347	15,347	15,347	15,347	15,347	15,347	14,452	14,452	14,452	14,452
Assessed value (000)	40,052	39,154	39,141	39,178	38,725	48,465	49,120	49,328	49,121	48,482
Gross bonded debt (000)	20,278	20,565	23,022	26,110	32,786	30,584	29,052	27,433	26,106	24,405
Less: self-supporting debt (000)	16,632	17,085	19,585	19,362	25,192	26,889	25,792	23,097	23,409	21,193
Net bonded debt (000)	3,646	3,480	3,437	6,748	7,594	3,695	3,260	4,336	2,697	3,212
Ratio of net bonded debt to assessed value	<u>9.10%</u>	<u>8.89%</u>	<u>8.78%</u>	<u>17.22%</u>	<u>19.61%</u>	<u>7.62%</u>	<u>6.64%</u>	<u>8.79%</u>	<u>5.49%</u>	<u>6.63%</u>

Notes:

Self-supporting debt includes water debt

Sources:

Population (2005-2010) were obtained from the 2000 census
 Population (2011-2014) were obtained from the 2010 census
 Assessed value amounts were obtained via the City Assessor's office.
 Debt amounts were obtained via the City Auditor's report 2005-2014



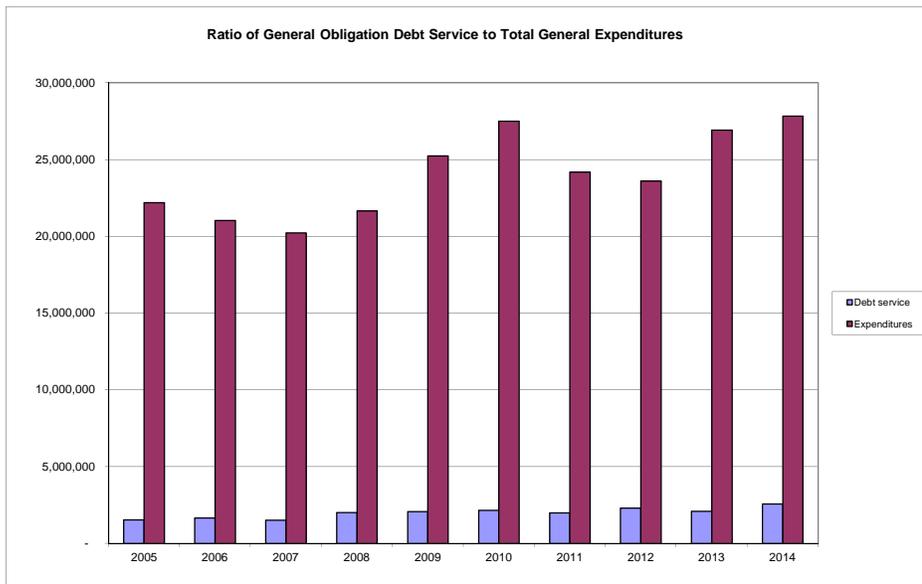
Ratio of General Obligation Debt Service to
Total General Expenditures

Last Ten Fiscal Years

Source	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt service	1,530,000	1,660,000	1,512,000	1,997,000	2,065,000	2,151,000	1,984,000	2,289,000	2,093,000	2,567,000
Expenditures	22,195,000	21,033,000	20,221,000	21,647,000	25,245,000	27,504,000	24,185,000	23,609,000	26,929,000	27,830,000
Ratio of general debt service to total general expenditures	6.89%	7.89%	7.48%	9.23%	8.18%	7.82%	8.20%	9.70%	7.77%	9.22%

Notes:

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



City of Olean
Principal Taxpayers

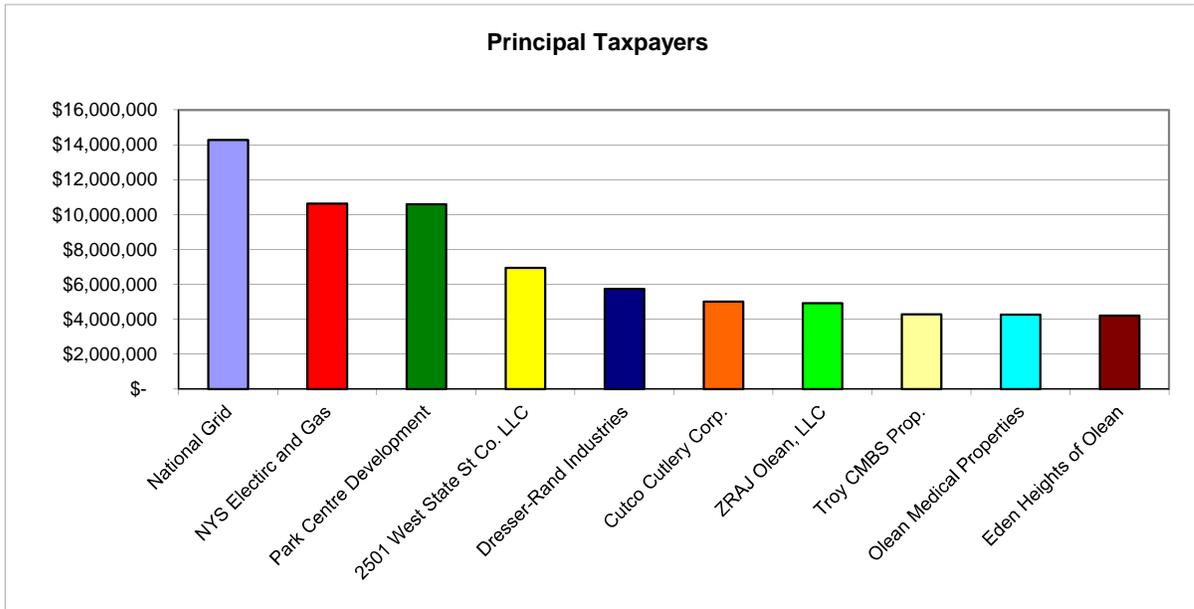
Fiscal Year Ended May 31, 2014

Page 89

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Estimated Equalized Full Value</u>	<u>Percentage of Equalized Full Value</u>
National Grid	Public Utility	\$ 14,285,227	2.91%
NYS Electric and Gas	Public Utility	10,639,560	2.16%
Park Centre Development	Real Estate	10,601,300	2.17%
2501 West State St Co. LLC	Grocery /Retail	6,950,000	1.41%
Dresser-Rand Industries	Manufacturing	5,756,400	1.17%
Cutco Cutlery Corp.	Manufacturing	5,021,600	1.02%
ZRAJ Olean, LLC	Retail	4,924,275	1.00%
Troy CMBS Prop.	Retail	4,300,000	0.88%
Olean Medical Properties	Health Care	4,276,800	0.87%
Eden Heights of Olean	Residential	4,225,000	0.86%
Total		\$ 70,980,162	14.45%

Note:

Percentage of equalized full value is calculated by dividing the valuation shown for each of the listed taxpayers by the City's total equalized full value.



<u>Employer</u>	<u>Type of Activity</u>	<u>Approximate # of Employees</u>
Olean General Hospital	Medical Facility	900
Dresser Rand	Manufacturing	700
CUTCO Cutlery Corp.	Manufacturing	669
The ReHabilitation Center	Services	530
Olean Center Mall	Retail Shops	400
Olean City Schools	Education	350
Henkel Loctite Corporation	Manufacturing	300
Subcon (Rehab)	Services	250
Olean Medical	Health Care	200
Olean YMCA	Services	200
City of Olean	Local Government	200
Community Bank, N.A.	Banking	180

Source: City Officials

