

CITY OF OLEAN, NEW YORK

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

***FOR THE
FISCAL YEAR ENDED MAY 31, 2012
WITH INDEPENDENT AUDITORS' REPORT***

CITY OF OLEAN, NEW YORK

MAY 31, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Olean, New York* for the year ended May 31, 2012, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's May 31, 2011 financial statements and, in our report dated November 16, 2011; we expressed an unqualified opinion on the fund financial statements and a qualified opinion on the government-wide financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, except for the effects of the recorded cost of the City's fixed assets and infrastructure as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Olean, New York* as of May 31, 2012, and the results of the respective changes in financial position and the budgetary comparison for the general fund, special revenue funds, and debt service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012 on our consideration of the *City of Olean, New York's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison information on pages 3 through 10 and pages 15 through 17, 47 and 50, 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.

Our audit was performed 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 combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations,"* and is also not a required part of the financial statements of *City of Olean*. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 15, 2012**

CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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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, 2012. 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, 2012:

- Overall net assets of the City increased during the current year in the amount of \$3,236,000, as compared to an increase of \$4,284,000 during the prior fiscal year.
- Total net assets of the City as of May 31, 2012 amounted to approximately \$31,255,000.
- The City's total revenue increased approximately 2% from \$24,275,000 during the fiscal year ended May 31, 2011 to \$24,775,000 during the fiscal year ended May 31, 2012. This increase was primarily the result of increases in charges for services, operating grants, and capital grants and contributions which were partially offset by declines in sales tax revenues and state aid.
- The City's total expenses increased approximately 8% from \$19,991,000 during fiscal year ended May 31, 2011 to \$21,539,000 during the fiscal year ended May 31, 2012. This increase was primarily related to increases in public safety costs, transportation and road maintenance costs, and state retirement costs.
- The City incurred capital costs in the amount of approximately \$2,290,000 primarily related to the purchase of new vehicles, other general equipment, work performed on the Airport Taxiway Project, Safe Routes to Schools Project, and other miscellaneous capital projects.
- The general fund reported an overall fund balance of approximately \$5,744,000 as of May 31, 2012.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Assets

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

2. Statement of Activities

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

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

CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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

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

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

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

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

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

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

The City has two kinds of funds:

1. Governmental Funds

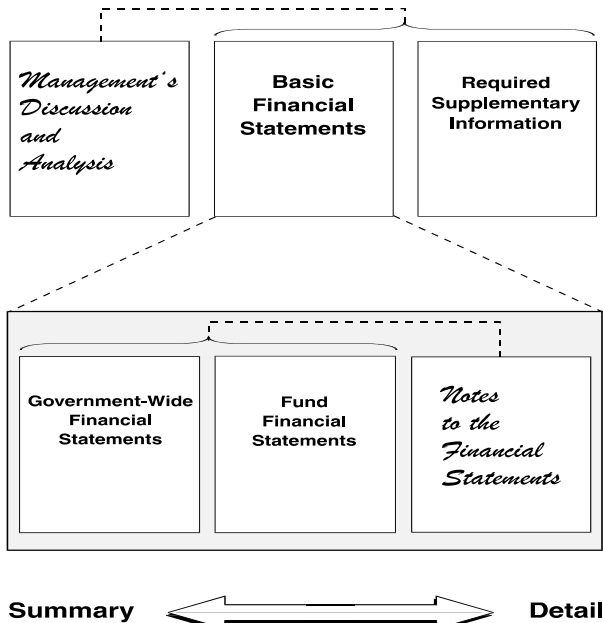
Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending.

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

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

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

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



III. Overview of the Financial Statements
(continued)

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

2. Fiduciary Funds

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

IV. Financial Analysis of the City as a Whole

Net Assets

The City's total reporting entity net assets increased \$3,236,000 or 12%. The components of net assets include: invested in capital assets, net of related debt of \$22,165,000; restricted net assets of \$4,397,000; and unrestricted net assets of \$4,693,000 as of May 31, 2012.

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

Changes in Net Assets

The City's total government-wide revenue was \$24,775,000. Approximately 28%, 18%, and 43% 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 \$21,539,000 for the fiscal year ended May 31, 2012. The City's expenses cover a range of services, with 11%, 27%, 13%, 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 28% of the City's total revenue for governmental activities. Total property taxes decreased approximately \$2,000 or 0% during the current fiscal year. The City budgeted for a small decline in property taxes in 2011-12.
- One of the City's most significant general revenue is non-property taxes, which represents \$4,452,000 or 18% of total governmental revenue. Total non-property taxes decreased approximately \$145,000 or 3% as a result of an overall decrease in sales and use tax revenues.
- The City's program revenue totaled approximately \$10,693,000. Program revenue consists of charges for services in the amount of \$8,554,000, which is primarily related to revenue received in the special revenue funds of approximately \$6,857,000. 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 \$545,000, 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 \$1,594,000, 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), Safe Routes to Schools, and the sewer projects.

CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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

Revenue (continued)

Total charges for services increased approximately 2% during the current fiscal year as a result of increases in outside water usage. Total operating grants increased approximately 16% during the current fiscal year, as a result of grant funding for City's OATS bus and additional federal Section 5311 funding utilized for the purchase of new bus shelters. Lastly, capital grants and contributions increased approximately 56% during the current year, which was primarily related to various airport renovation projects.

Expenses

Figure A-6 presents the cost of each of the expenditure-types, which include; general governmental support, public safety, health, transportation, culture and recreation, economic development, home and community services, employee benefit and debt service. The net cost shows the financial burden that was placed on the City's taxpayers and NYS by each of these functions. Total costs of the City's governmental activities were approximately \$21,539,000.

- The City's general governmental support was approximately \$2,391,000 or 11% 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 1% in part due to a decline in consulting fees in the General Fund.
- The City's public safety costs were approximately \$5,764,000 or 27% of total expenditures. These expenditures consist primarily of costs attributable to the fire and police departments. Total costs for public safety increased 4% during the current year, due to an increases in police department lead and abatement project costs, training expenses, and overtime costs.

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

Expenses (continued)

- Transportation costs of the City were approximately \$2,711,000 or 13% 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 34% during the current year due to City-wide street and road repairs.
- The City's culture and recreation costs were approximately \$916,000 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 increased approximately 12% which was primarily related to an increase in park maintenance costs, increases in costs associated with stadium repairs, and heater repairs at the recreation center.
- Home and community services costs were approximately \$4,183,000 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 less than 1% during the current year.
- Employee benefit costs were approximately \$4,716,000 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 increased approximately 17% during the current fiscal year primarily as a result of increases in state pension costs and workers compensation insurance costs.
- During the current fiscal year, the City had debt service costs of \$797,000. These costs were primarily related to the current fiscal year interest payments on long-term debt for the new water treatment facility and the City's two new reservoirs. These costs also include interest payments on serial bonds for other city public improvement projects.

CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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Figure A-3 – Condensed Statement of Net Assets

City of Olean, New York Condensed Statement of Net Assets As of May 31, (in thousands of dollars)			
	2012	2011	Change
Assets			
Current and other assets	\$ 20,183	\$ 18,789	7%
Capital Assets	47,796	47,226	1%
Total assets	\$ 67,979	\$ 66,015	3%
Liabilities			
Other liabilities	\$ 7,040	\$ 6,471	9%
Long-term debt outstanding	29,684	31,526	-6%
Total liabilities	36,724	37,997	-3%
Net Assets			
Invested in capital assets, net of related debt	22,165	20,252	9%
Restricted	4,397	1,833	140%
Unrestricted	4,693	5,933	-21%
Total net assets	31,255	28,018	12%
Total liabilities and net assets	\$ 67,979	\$ 66,015	3%

Figure A-4 – Condensed Statement of Activities

City of Olean, New York Condensed Statement of Activities For the Year Ended May 31, (in thousands of dollars)			
	2012	2011	Change
Revenue			
Program Revenue			
Charges for services	\$ 8,554	\$ 8,412	2%
Operating grants	545	468	16%
Capital grants & contributions	1,594	1,022	56%
General Revenue			
Real property taxes	6,991	6,993	0%
Special assessment tax - real property	20	2	1220%
Real property tax items	199	289	-31%
Non-property tax items	4,452	4,597	-3%
Use of money and property	25	30	-18%
Miscellaneous local sources	7	34	100%
State aid	2,388	2,428	-2%
Total revenue	24,775	24,275	2%
Expenses			
General government support	2,391	2,425	-1%
Public safety	5,764	5,557	4%
Health	61	65	-5%
Transportation	2,711	2,024	34%
Culture and recreation	916	819	12%
Home and community services	4,183	4,164	0%
Employee benefits	4,716	4,034	17%
Debt service	797	903	-12%
Total expenses	21,539	19,991	8%
Change in net assets	\$ 3,236	\$ 4,284	

Figure A-5 – Governmental Sources of Revenue

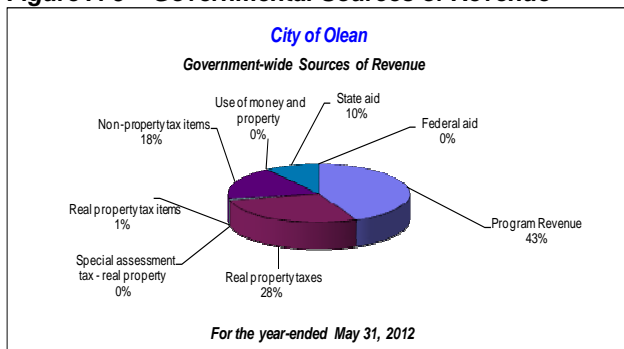
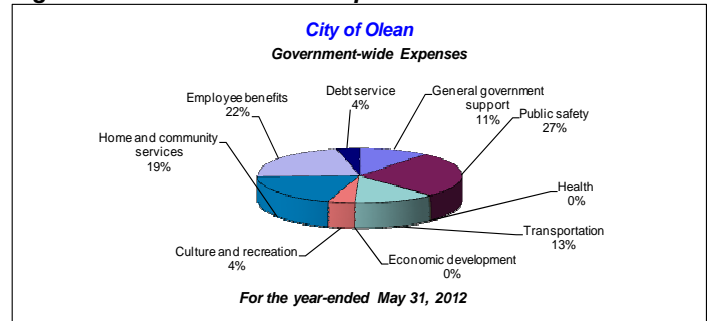


Figure A-6 – Governmental Expenses



V. Financial Analysis of the City's Funds

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

General Fund

- The City's general fund expenditures and other sources exceeded its revenue and other uses by approximately \$509,000 during the year ended May 31, 2012.
- The City's general fund unassigned fund balance equated to approximately \$5,437,000 as of May 31, 2012.
- The City had an assigned fund balance as of May 31, 2012, which approximated \$307,000.
- The total assets for the City's general fund were \$12,165,000 which increased approximately \$29,000 during the current year, primarily related to an increase in federal and state receivables as of May 31, 2012. The City's general fund liabilities as of May 31, 2012 were \$6,421,000 which increased approximately \$538,000 during the current fiscal year, primarily related to increases in deferred real estate taxes and balances due to other funds.

CITY OF OLEAN, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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

General Fund (continued)

- The City's total revenue and other sources in the general fund decreased approximately \$1,569,000 or 9% during the current year as a result of decreases in revenue associated with sales tax collections and gross receipts tax collections. In addition, in the prior fiscal year, the City had other financing sources from the issuance of serial bonds whose proceeds were utilized to pay down deficit financing bond anticipation notes in the amount of \$1,463,000. Total expenditures and other uses in the general fund increased approximately \$2,485,000 or 17% which was primarily related to increases in road repair and maintenance costs, state retirement costs, and interfund transfers to the capital projects fund.

Special Revenue Fund

- The City's special revenue consisted of the following funds; water fund, sewer fund, revolving loan fund, housing fund and first time homebuyers' fund.
- Current year revenue and other sources in the special revenue fund was \$6,857,000 which decreased \$207,000 primarily related to prior year proceeds from the issuance of serial bonds in the amount of approximately \$307,000. This decrease was partially offset by an increase in outside sewer charges. Total expenditures and other uses were \$7,904,000 which increased \$1,330,000. This increase primarily related to current year increases in water and sewer fund expenditures, state pension rates, and transfers to capital fund for upcoming capital projects.

Debt Service Fund

- The City's current fiscal year revenue and other sources were \$1,848,000 which increased approximately \$94,000 and was primarily related to an increase in long-term debt requirements. Expenditures during the current year amounted to \$2,103,000 which increased approximately \$350,000.

Capital Projects Fund

- During the current year, the City incurred total costs in the capital projects fund in the amount of \$1,985,000. Such costs were primarily related to costs associated with the Airport Master Plan Project (\$885,000), Vehicle Replacement (\$267,000), Safe Routes to Schools Project (\$175,000), and the CHIPS program (\$394,000).

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 \$805,000 below the revised budget. The most significant variances were in the areas of general governmental support and employee benefits which totaled approximately \$364,000 and \$159,000, respectively, below that budgeted. The City's transportation expenditures were approximately \$95,000 above that budgeted. On the other hand, resources available for appropriations were approximately \$212,000 above the final budgeted amount. Significant variance of revenue items consisted of federal aid and state sources that were approximately \$208,000 and \$223,000, respectively, above that budgeted.

VII. Capital Asset and Debt Administration

Capital Assets

As of May 31, 2012, the City had a net investment of \$47,796,000 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, 2012, totaled approximately \$2,290,000 and consisted primarily of costs associated with the purchase of new vehicles, airport renovations, Safe Routes to Schools, 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, 2012, the City had approximately \$29,684,000 in serial bonds, capital leases, EFC notes, bond anticipation 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, 2012

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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, 2012</i> <i>(in thousands of dollars)</i>			
	Revised Budget	Actual	Difference
Revenue			
Real property taxes	\$ 6,991	\$ 6,991	\$ -
Special assessment tax - real property	1	19	18
Real property tax items	305	199	(106)
Non-property tax items	4,545	4,452	(93)
Departmental income	1,396	1,402	6
Intergovernmental charges	164	151	(13)
Use of money and property	27	21	(6)
Licenses and permits	63	47	(16)
Fines and forfeitures	110	94	(16)
Sales of property and comp for loss	2	1	(1)
Miscellaneous local sources	-	8	8
State aid	2,502	2,725	223
Federal aid	-	208	208
Total revenue	\$ 16,106	\$ 16,318	\$ 212
Expenses			
General government support	\$ 2,465	\$ 2,101	\$ 364
Public safety	5,424	5,262	162
Health	88	55	33
Transportation	2,091	2,186	(95)
Economic development	15	-	15
Culture and recreation	1,240	1,106	134
Home and community services	176	135	41
Employee benefits	3,873	3,714	159
Debt service	29	29	0
Other financing uses			
BANS redeemed from appropriations	-	30	(30)
Transfer to other funds	2,231	2,209	22
Total expenses	\$ 17,632	\$ 16,827	\$ 805

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 2012-13 fiscal year the Council adopted a budget with a tax decrease of approximately 1.00%. Tax rates have increased in each of the previous ten years.
- NYS has imposed a 2% property tax cap on all municipalities as it relates to the 2012-13 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 2012-13 at the same levels realized in the 2011-12 fiscal year. These funding levels have decreased in recent years.
- The contracts of all four bargaining units within the City of Olean expired on May 31, 2011 and negotiations are currently still ongoing. The City of Olean is concerned with rising health care and pension costs. We believe these factors will play an integral part in the outcome of negotiations.
- The City of Olean learned that Dal-Tile Corp. will be ceasing operations after over 90 years of operations. Over 150 full-time employees are affected. The City of Olean will actively work with agencies throughout New York State and the U.S. to market this facility for a prospective user.
- Plans are underway to develop a privately financed multi-purpose recreation facility in East Olean with construction slated for completion in 2013. Included is a state of the art 24 lane bowling complex, a miniature golf course, restaurant, and other amenities. The local developer is projecting that 50 new jobs will be created as a result of this project.
- The City of Olean has pledged over \$2.5 million from its' General, Water, and Sewer unassigned fund balances for the East End Project. In addition, a match of \$1 million from New York State will be directed to a major gateway to the City - East State Street. Plans include repaving a major portion of the street and addressing sewer related issues in that part of the City.
- The City is concerned with the potential effect of a wind farm that may be created on the outskirts of the City. If this comes to fruition, the City could experience a significant loss in revenues in the Water Department. Indeck, located within the City of Olean, is a large industrial customer who may shift from the use of the City's water for production of energy to this new alternative. If this does happen, the potential loss of water revenues may be expected to approximate \$325,000 annually. The decline from this revenue source may have to be offset by an increase in the City's water rates.

IX. Contacting the City's Financial Management

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

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

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

Page 11

Assets	2012	2011
Cash on hand	\$ 1,348	\$ 1,348
Cash on deposit		
Regular accounts	12,635,214	13,369,128
Receivables		
Refuse and garbage	1,869	1,869
Special assessment	1,882	1,824
Accounts receivable	1,671,156	1,706,436
Due from other funds	9,513	9,513
State and federal	1,218,545	991,862
Due from other governments	42,365	56,520
Revolving loans receivable	224,247	273,419
First Time Homebuyers loans receivable	117,695	123,226
Rehabilitation loans receivable	7,470	7,826
Other assets - other post-employment benefit	-	66,218
Cash to be used for capital assets	4,251,813	2,179,699
Capital assets, net	47,795,854	47,226,303
Total assets	<u>\$ 67,978,971</u>	<u>\$ 66,015,191</u>
Liabilities		
Payables		
Accounts payable and retainage payable	\$ 880,758	\$ 707,852
Accrued liabilities	717,628	623,903
Due to other funds	2,716	2,716
Due to employee retirement system	303,903	252,494
Other liabilities	90,200	172,038
Deferred revenue	5,045,670	4,712,032
Long-term liabilities		
Portion due or payable within one year		
Due to other governments	24,232	23,991
Bond anticipation notes payable - construction	11,182,895	11,500,000
NYS EFC notes	290,000	285,000
Serial bonds payable	867,000	1,040,990
Capital leases	131,494	125,512
Environmental liability	225,000	225,000
Retirement incentive	4,100	68,000
Compensated absences	35,000	68,000
Portion due or payable after one year		
Due to other governments	47,131	71,362
NYS EFC notes	5,110,000	5,400,000
Serial bonds payable	9,983,000	10,826,010
Capital leases	959,735	1,091,229
Environmental liability	507,000	507,000
Retirement incentive	24,593	28,460
Compensated absences	288,993	265,281
Other-post employment benefits	3,399	-
Total liabilities	<u>36,724,447</u>	<u>37,996,870</u>
Net Assets		
Investment in capital assets, net of related debt	22,165,011	20,251,615
Restricted for		
Debt service	381,650	529,753
Capital	4,015,389	1,303,575
Unrestricted:		
Designated	492,609	587,851
Undesignated	4,199,865	5,345,527
Total net assets	<u>31,254,524</u>	<u>28,018,321</u>
Total liabilities and net assets	<u>\$ 67,978,971</u>	<u>\$ 66,015,191</u>

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

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

Page 12

	Program Revenues				2012	2011
	Expenses	Charges for Services	Operating Grants	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs						
General government support	\$ 2,390,448	\$ 240,873	\$ -	\$ 276,001	\$ (1,873,574)	\$ (1,977,807)
Public safety	5,764,042	165,214	45,561	148,890	(5,404,377)	(5,268,800)
Health	61,477	729,103	-	-	667,626	737,767
Transportation	2,711,154	383,286	487,606	1,087,643	(752,619)	(1,040,027)
Economic development	-	11,998	-	-	11,998	15,042
Culture and recreation	916,266	277,122	11,393	-	(627,751)	(557,328)
Home and community services	4,182,670	5,123,073	-	81,860	1,022,263	1,407,324
Employee benefits	4,716,388	1,395,008	-	-	(3,321,380)	(2,771,786)
Debt service - interest & issuance fees	796,935	228,061	-	-	(568,874)	(633,314)
Total functions and programs	<u>\$ 21,539,380</u>	<u>\$ 8,553,738</u>	<u>\$ 544,560</u>	<u>\$ 1,594,395</u>	<u>(10,846,688)</u>	<u>(10,088,929)</u>
General Revenues						
Real property taxes					6,990,983	6,993,342
Special assessment tax - real property					20,379	1,544
Real property tax items					199,363	289,320
Non-property tax items					4,451,814	4,597,008
Use of money and property					24,729	30,001
Miscellaneous local sources					7,774	33,582
State aid					2,387,849	2,428,473
Total general revenues					<u>14,082,891</u>	<u>14,373,270</u>
Change in net assets					3,236,203	4,284,341
Net assets - beginning of year					<u>28,018,321</u>	<u>23,733,980</u>
Net assets - end of year					<u>\$ 31,254,524</u>	<u>\$ 28,018,321</u>

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

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

Page 13

	Major Funds					Non-Major Funds		
	General	Water	Sewer	Debt Service	Capital Project Funds	Special Revenue Funds	2012 (Memo only) Total	2011 (Memo only) Total
Assets								
Cash on hand	\$ 1,308	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ 1,348	\$ 1,348
Cash on deposit								
Regular accounts	10,593,521	659,426	557,871	463,437	4,251,813	360,959	16,887,027	15,548,827
Receivables								
Refuse and garbage	1,869	-	-	-	-	-	1,869	1,869
Special assessment	1,882	-	-	-	-	-	1,882	1,824
Accounts receivable	155,249	771,337	742,784	-	1,786	-	1,671,156	1,706,436
Due from other funds	47,483	157,598	110,828	-	975,244	30	1,291,183	639,099
Advances to other funds	568,210	-	97,771	-	-	-	665,981	630,007
State and federal	795,704	-	-	-	422,841	-	1,218,545	991,862
Revolving loans receivable	-	-	-	-	-	224,247	224,247	273,419
First Time Homebuyers loans receivable	-	-	-	-	-	117,695	117,695	123,226
Rehabilitation loans receivable	-	-	-	-	-	7,470	7,470	7,826
Total assets	\$ 12,165,226	\$ 1,588,401	\$ 1,509,254	\$ 463,437	\$ 5,651,684	\$ 710,401	\$ 22,088,403	\$ 19,925,743
Liabilities								
Accounts payable and retainage payable	\$ 284,255	\$ 116,864	\$ 65,639	\$ -	\$ 414,000	\$ -	\$ 880,758	\$ 707,852
Accrued liabilities	553,116	57,128	42,384	-	100,000	-	752,628	603,903
Due to other funds	617,850	-	584,749	81,787	-	-	1,284,386	632,302
Advances from other funds	-	665,981	-	-	-	-	665,981	630,007
Due to employee retirement systems	253,070	25,833	25,000	-	-	-	303,903	252,494
Other liabilities	16,044	2,556	64,193	-	-	7,407	90,200	172,038
Deferred revenue	4,696,481	-	-	-	-	349,189	5,045,670	4,712,032
Bond anticipation notes - construction	-	-	-	-	11,182,895	-	11,182,895	11,500,000
Total liabilities	6,420,816	868,362	781,965	81,787	11,696,895	356,596	20,206,421	19,210,628
Fund Equity								
Restricted	-	-	-	381,650	4,015,389	-	4,397,039	1,833,328
Assigned	307,346	720,039	727,289	-	-	353,805	2,108,479	3,373,783
Unassigned (deficit)	5,437,064	-	-	-	(10,060,600)	-	(4,623,536)	(4,491,996)
Total fund equity (deficit)	5,744,410	720,039	727,289	381,650	(6,045,211)	353,805	1,881,982	715,115
Total liabilities and fund equity	\$ 12,165,226	\$ 1,588,401	\$ 1,509,254	\$ 463,437	\$ 5,651,684	\$ 710,401	\$ 22,088,403	\$ 19,925,743

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,

Page 14

	Major Funds					Non-Major Funds	2012 (Memo only) Total	2011 (Memo only) Total
	General	Water	Sewer	Debt Service	Capital Project Funds	Special Revenue Funds		
Revenue								
Real property taxes	\$ 6,990,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,990,983	\$ 6,993,342
Special assessment tax - real property	20,379	-	-	-	-	-	20,379	1,544
Real property tax items	199,363	-	-	-	-	-	199,363	289,320
Non-property tax items	4,451,814	-	-	-	-	-	4,451,814	4,597,008
Departmental income	1,401,875	3,293,797	3,111,813	-	-	110,886	7,918,371	7,946,166
Intergovernmental charges	150,545	-	329,918	-	-	-	480,463	285,921
Use of money and property	21,268	-	-	674	5,145	1,421	28,508	36,374
Licenses and permits	47,367	-	-	-	-	-	47,367	61,706
Fines and forfeitures	93,550	-	-	-	-	-	93,550	89,744
Sale of property & compensation for loss	935	4,409	-	-	-	-	5,344	13,329
Miscellaneous local sources	7,774	-	-	-	146,966	-	154,740	220,624
State aid	2,724,689	-	4,864	-	798,702	-	3,528,255	3,082,067
Federal aid	207,720	-	-	-	648,726	-	856,446	658,184
Total revenue	16,318,262	3,298,206	3,446,595	674	1,599,539	112,307	24,775,583	24,275,329
Expenditures								
General government support	2,101,229	60,665	58,359	-	343,597	-	2,563,850	3,358,651
Public safety	5,261,844	-	-	-	185,355	-	5,447,199	5,303,190
Health	55,217	-	-	-	-	-	55,217	59,154
Transportation	2,185,578	-	-	-	1,354,016	-	3,539,594	2,751,633
Culture and recreation	1,105,889	-	-	-	-	-	1,105,889	845,295
Home and community services	135,455	1,790,034	1,807,579	-	101,909	48,882	3,883,859	5,600,957
Employee benefits	3,713,728	494,385	515,713	-	-	-	4,723,826	4,282,418
Debt service:								
Principal	23,990	-	-	1,427,512	-	-	1,451,502	1,161,737
Interest	4,924	61,597	95,446	675,813	-	-	837,780	822,471
Total expenditures	14,587,854	2,406,681	2,477,097	2,103,325	1,984,877	48,882	23,608,716	24,185,506
Excess (deficiency) of revenue over expenditures	1,730,408	891,525	969,498	(2,102,651)	(385,338)	63,425	1,166,867	89,823
Other financing sources (uses)								
BANS redeemed from appropriations	(30,000)	(30,000)	(257,105)	-	317,105	-	-	-
Proceeds from serial bonds - construction	-	-	-	-	-	-	-	1,455,000
Proceeds from serial bonds - deficit financing	-	-	-	-	-	-	-	2,000,000
Operating transfers in	30,000	-	-	1,846,991	3,076,575	-	4,953,566	2,106,721
Operating transfers out	(2,239,359)	(1,153,592)	(1,530,615)	-	(30,000)	-	(4,953,566)	(2,106,721)
Total other financing sources (uses)	(2,239,359)	(1,183,592)	(1,787,720)	1,846,991	3,363,680	-	-	3,455,000
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(508,951)	(292,067)	(818,222)	(255,660)	2,978,342	63,425	1,166,867	3,544,823
Fund equity (deficit), beginning of year	6,253,361	1,012,106	1,545,511	529,753	(8,915,996)	290,380	715,115	(2,829,708)
Residual equity transfer	-	-	-	107,557	(107,557)	-	-	-
Fund equity (deficit), end of year	\$ 5,744,410	\$ 720,039	\$ 727,289	\$ 381,650	\$ (6,045,211)	\$ 353,805	\$ 1,881,982	\$ 715,115

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<u>Revenue</u>					
Real property taxes	\$ 6,990,983	\$ 6,990,983	\$ 6,990,983	\$ -	\$ -
Special assessment tax - real property	790	790	20,379	-	19,589
Real property tax items	305,000	305,000	199,363	-	(105,637)
Non-property tax items	4,545,000	4,545,000	4,451,814	-	(93,186)
Departmental income	1,396,221	1,396,221	1,401,875	-	5,654
Intergovernmental charges	163,895	163,895	150,545	-	(13,350)
Use of money and property	26,740	26,740	21,268	-	(5,472)
Licenses and permits	63,850	63,850	47,367	-	(16,483)
Fines and forfeitures	110,000	110,000	93,550	-	(16,450)
Sales of property and compensation for loss	1,500	1,500	935	-	(565)
Miscellaneous local sources	-	-	7,774	-	7,774
State aid	2,502,488	2,502,488	2,724,689	-	222,201
Federal aid	-	-	207,720	-	207,720
Total revenue	16,106,467	16,106,467	16,318,262	-	211,795
<u>Expenditures</u>					
General government support	2,945,645	2,465,157	2,101,229	66,595	297,333
Public safety	5,376,781	5,424,374	5,261,844	23,000	139,530
Health	87,532	87,532	55,217	-	32,315
Transportation	1,649,092	2,090,858	2,185,578	150,000	(244,720)
Economic development	15,000	15,000	-	15,000	-
Culture and recreation	1,133,352	1,240,267	1,105,889	27,751	106,627
Home and community services	175,740	175,740	135,455	25,000	15,285
Employee benefits	3,873,450	3,873,450	3,713,728	-	159,722
Debt service:					
Principal	23,989	23,989	23,990	-	(1)
Interest	5,318	5,318	4,924	-	394
Total expenditures	15,285,899	15,401,685	14,587,854	307,346	506,485
Excess (deficiency) of revenue over expenditures	820,568	704,782	1,730,408	(307,346)	718,280
<u>Other financing sources (uses)</u>					
BANS redeemed from appropriations	-	-	(30,000)	-	(30,000)
Operating transfers in	-	30,000	30,000	-	-
Operating transfers out	(820,568)	(2,260,568)	(2,239,359)	-	21,209
Total other financing sources (uses)	(820,568)	(2,230,568)	(2,239,359)	-	(8,791)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$ -	\$ (1,525,786)	\$ (508,951)	\$ (307,346)	\$ 709,489

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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	(Water Fund and Sewer Fund Only)				Variance
	Original	Amended	Actual	Encumbrances	Favorable
	Budget	Budget			(Unfavorable)
Revenue					
Departmental income	\$ 6,681,168	\$ 6,681,168	\$ 6,405,610	\$ -	\$ (275,558)
Miscellaneous income	-	-	-	-	-
Intergovernmental charges	175,000	175,000	329,918	-	154,918
Sales of property and compensation for loss	-	-	4,409	-	4,409
State aid	-	-	4,864	-	4,864
Total revenue	6,856,168	6,856,168	6,744,801	-	(111,367)
Expenditures					
General government support	423,500	337,500	119,024	-	218,476
Home and community services	3,911,500	3,973,565	3,597,613	185,263	190,689
Employee benefits	1,045,382	1,045,382	1,010,098	-	35,284
Debt service - interest expense	-	-	157,043	-	(157,043)
Total expenditures	5,380,382	5,356,447	4,883,778	185,263	287,406
Excess (deficiency) of revenue over expenditures	1,475,786	1,499,721	1,861,023	(185,263)	176,039
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(287,105)	-	(287,105)
Operating transfers out	(1,457,098)	(3,093,098)	(2,684,207)	-	408,891
Total other financing sources (uses)	(1,457,098)	(3,093,098)	(2,971,312)	-	121,786
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 18,688	\$ (1,593,377)	\$ (1,110,289)	\$ (185,263)	\$ 297,825

CITY OF OLEAN, NEW YORK
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2012

Page 17

	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Use of money and property	\$ -	\$ 674	\$ -	\$ 674
Total revenue	-	674	-	674
Expenditures				
General government support	10,744	-	-	10,744
Debt service:				
Principal	1,481,771	1,427,512	-	54,259
Interest	785,151	675,813	-	109,338
Total expenditures	2,277,666	2,103,325	-	174,341
Excess (deficiency) of revenue over expenditures	(2,277,666)	(2,102,651)	-	175,015
Other financing sources (uses)				
Operating transfers in	2,277,666	1,846,991	-	(430,675)
Total other financing sources (uses)	2,277,666	1,846,991	-	(430,675)
Excess (deficiency) of revenue and other financing sources over expenditures	\$ -	\$ (255,660)	\$ -	\$ (255,660)

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

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	2012	2011
Assets		
Cash on deposit		
Regular accounts	\$ 111,495	\$ 100,978
Restricted accounts	128,976	140,457
Due from governmental activities - general fund	2,716	2,716
Total assets	<u>\$ 243,187</u>	<u>\$ 244,151</u>
Due to governmental activities - general fund	\$ 9,513	\$ 9,513
Other liabilities	233,674	234,638
Total liabilities	<u>\$ 243,187</u>	<u>\$ 244,151</u>

CITY OF OLEAN, NEW YORK
RECONCILIATION OF GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF MAY 31, 2012

Total fund balance - governmental funds \$ 1,881,982

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	\$ 72,894,678	
Accumulated depreciation	<u>(25,098,824)</u>	
		47,795,854

Interest on long-term assets is not accrued in governmental funds, but rather is recognized as an expenditure when due. (190,000)

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	(28,998)	
NYS Environmental Facilities Corporation Bond	(5,400,000)	
Serial Bonds payable	(10,850,000)	
Capital leases	(1,091,229)	
Environmental liability	(507,000)	
Other post-employment benefits	(3,399)	
Retirement incentive	(28,693)	
Compensated absences	<u>(323,993)</u>	
		<u>(18,233,312)</u>

Total net assets - governmental liabilities \$ 31,254,524

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash on hand	\$ 1,348	\$ -	\$ -	\$ 1,348
Cash on deposit				
Regular accounts	16,887,027	-	-	16,887,027
Receivables				
Refuse and garbage	1,869	-	-	1,869
Special assessment	1,882	-	-	1,882
Accounts receivable	1,671,156	-	-	1,671,156
Due from other funds	1,291,183	-	(1,281,670)	9,513
Advances to other funds	665,981	-	(665,981)	-
State, Federal and other governments	1,218,545	42,365	-	1,260,910
Revolving loans receivable	224,247	-	-	224,247
First Time Homebuyers loans receivable	117,695	-	-	117,695
Rehabilitation loans receivable	7,470	-	-	7,470
Capital Assets, net	-	47,795,854	-	47,795,854
Total assets	\$ 22,088,403	\$ 47,838,219	\$ (1,947,651)	\$ 67,978,971
Liabilities				
Accounts payable and retainage payable	\$ 880,758	\$ -	\$ -	\$ 880,758
Accrued liabilities	752,628	190,000	(225,000)	717,628
Due to other funds	1,284,386	-	(1,281,670)	2,716
Advances from other funds	665,981	-	(665,981)	-
Due to other governments	-	71,363	-	71,363
Due to employee retirement system	303,903	-	-	303,903
Other liabilities	90,200	-	-	90,200
Deferred revenue	5,045,670	-	-	5,045,670
Bond anticipation notes payable	11,182,895	-	-	11,182,895
NYS EFC note	-	5,400,000	-	5,400,000
Serial bonds payable	-	10,850,000	-	10,850,000
Capital leases	-	1,091,229	-	1,091,229
Environmental liability	-	507,000	225,000	732,000
Other post-employment benefits	-	3,399	-	3,399
Retirement incentive	-	28,693	-	28,693
Compensated absences	-	323,993	-	323,993
Total liabilities	20,206,421	18,465,677	(1,947,651)	36,724,447
Fund equity/net assets	1,881,982	29,372,542	-	31,254,524
Total liabilities and fund equity/net assets	\$ 22,088,403	\$ 47,838,219	\$ (1,947,651)	\$ 67,978,971

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, 2012**

Total net change in fund balances - governmental funds \$ 1,166,867

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

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

Capital outlays	\$ 2,289,516	
Depreciation expense	<u>(1,719,965)</u>	569,551

Repayment of bond and other long term debt principal is an expenditure in the
government funds, but the repayment reduces long-term liabilities in the statement of
net assets. 1,437,347

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. 55,000

In the statement of activities, certain operating expenses - compensated
absences (vacation and sick days) and other post employment benefits are
measured by the amounts earned during the year. In the governmental funds,
however, expenditures for these items are measured by the amount
of financial resources used. 7,438

Change in net assets of governmental activities \$ 3,236,203

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Total
Revenues					
Real property taxes	\$ 6,990,983	\$ -	\$ -	\$ -	\$ 6,990,983
Special assessment tax - real property	20,379	-	-	-	20,379
Real property tax items	199,363	-	-	-	199,363
Non-property tax items	4,451,814	-	-	-	4,451,814
Departmental income	7,918,371	-	-	(7,918,371)	-
Intergovernmental charges	480,463	-	(14,155)	(466,308)	-
Use of money and property	28,508	-	-	(3,779)	24,729
Licenses and permits	47,367	-	-	(47,367)	-
Fines and forfeitures	93,550	-	-	(93,550)	-
Sales of property and compensation for loss	5,344	-	-	(5,344)	-
Miscellaneous local sources	154,740	-	-	(146,966)	7,774
State aid	3,528,255	-	-	(1,140,406)	2,387,849
Federal aid	856,446	-	-	(856,446)	-
Total revenues	24,775,583	-	(14,155)	(10,678,537)	14,082,891
Expenditures/Expenses					
General government support	2,563,850	(173,402)	-	(516,874)	1,873,574
Public safety	5,447,199	316,843	-	(359,665)	5,404,377
Health	55,217	6,260	-	(729,103)	(667,626)
Transportation	3,539,594	(828,440)	-	(1,958,535)	752,619
Economic development	-	-	-	(11,998)	(11,998)
Culture and recreation	1,105,889	(189,623)	-	(288,515)	627,751
Home and community services	3,883,859	298,811	-	(5,204,933)	(1,022,263)
Employee benefits	4,723,826	-	(7,438)	(1,395,008)	3,321,380
Debt service:					
Principal	1,451,502	-	(1,451,502)	-	-
Interest	837,780	-	(55,000)	(213,906)	568,874
Total expenditures/expenses	23,608,716	(569,551)	(1,513,940)	(10,678,537)	10,846,688
Excess (deficiency) of revenue over expenditures	1,166,867	569,551	1,499,785	-	3,236,203
Other sources and (uses)					
Operating transfers in	4,953,566	-	-	(4,953,566)	-
Operating transfers out	(4,953,566)	-	-	4,953,566	-
Total other sources (uses)	-	-	-	-	-
Net change for the year	\$ 1,166,867	\$ 569,551	\$ 1,499,785	\$ -	\$ 3,236,203

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

1. Government-wide Statements

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

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

2. Fund Financial Statements

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

3. Fund Categories

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are Sewer, Water, Revolving Loan, Housing Rehabilitation and First Time Homebuyers.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

3. Fund Categories (continued)

Capital Projects Fund - used to account for financial resources to be used for the acquisition, construction or major repair of major capital facilities.

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

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

C. Basis of Accounting / Measurement Focus

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting/Measurement Focus (cont'd)

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

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

D. Property Taxes

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

E. Cash and Cash Equivalents

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

F. Fund Equity - Reservations and Designations

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

1. 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.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity - Reservations and Designations (continued)

1. Governmental Funds (continued)

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 May 31, 2012.

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.

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, 2012.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity - Reservations and Designations (continued)

1. Governmental Funds (continued)

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.

2. Government-wide financial statements

A. Invested in Capital Assets, Net of Related Debt

This designation of net assets is used to accumulate the capital asset balance in the statement of net assets 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Equity (continued)

2. Government-wide financial statements (continued)

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 assets 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgetary Data (continued)

1. Budget Policies (continued)

- 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.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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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:

	June 1, 2011 Fund Equity	Revenues and Other Sources	Expenditures and Other Uses	May 31, 2012 Fund Equity
Total for funds included in Budget Comparison	\$ 2,557,617	\$ 6,744,801	\$ 7,855,090	\$ 1,447,328
Funds not included in budget comparison:				
Revolving Loan Fund	258,216	84,756	15,049	327,923
First Time Homebuyers Fund	25,967	27,074	29,878	23,163
Housing Rehabilitation Fund	6,197	477	3,955	2,719
Total Special Revenue Funds	<u>\$ 2,847,997</u>	<u>\$ 6,857,108</u>	<u>\$ 7,903,972</u>	<u>\$ 1,801,133</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 2011-2012 was \$4,087,414 as compared to \$4,142,147 for the prior fiscal year, a decrease of \$54,733. The City's General Fund Balance Sheet, as of May 31, 2012, reflects a receivable balance from Federal and State governments of \$795,704, of which, \$597,907 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, 2012 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.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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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. Deferred Revenue

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

K. Compensated Absences

Sick leave and Comp Time Pay - certain of the City's employee groups have negotiated benefits payable based on accumulated unused sick and comp days. Generally the employee must have accumulated minimum years of service with the City and must be eligible for retirement under the provisions of either the employee retirement systems. The City has recorded an estimated liability in the government-wide financial statements as of May 31, 2012 amounting to \$323,993 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 Assets for due to and from other funds represents amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

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

P. Total Columns on the Financial Statements

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

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

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

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

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

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

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

1. Long-term Revenue Differences

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

2. Capital Related Differences

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

**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)

3. Long-term Debt Transaction Differences

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Cash and Investments

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

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. While the City does not have a specific policy with regards to custodial credit risk, New York State statutes govern the City's investment policies. At May 31, 2012, 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, 2012

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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, 2012 per the bank were approximately \$16,843,000. These deposits are categorized as follows:

Category 1	Category 2	Category 3	Carrying Value
\$ 750,000	\$ 16,093,000	\$ 0	\$16,843,000

NOTE 3 - DETAIL NOTES ON ALL FUNDS
(CONTINUED)

A. Assets (continued)

2. Capital Assets

Governmental activities:	Beginning Balance 5/31/11	Additions / Transfers	Ending Balance 5/31/12
Capital assets that are not depreciated:			
Land	\$ 660,727	\$ -	\$ 660,727
Construction in Progress	16,206,404	(6,924,761)	9,281,643
Capital assets that are depreciated:			
Buildings and Improvements	44,957,696	8,436,573	53,394,269
Furniture and Equipment	3,409,354	489,797	3,899,151
Vehicles	5,370,981	287,907	5,658,888
Total historical Cost	70,605,162	\$ 2,289,516	72,894,678
Less: Accumulated depreciation:	23,378,859	\$ 1,719,965	25,098,824
Total net book Value	\$ 47,226,303		\$ 47,795,854

Depreciation expense:

General governmental support	\$ 290,552
Public safety	620,846
Health	6,260
Transportation	239,991
Economic development	-
Culture and recreation	125,380
Home and community services	436,936
	<u>\$ 1,719,965</u>

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (continued)

3. Receivables

Receivables at May 31, 2012 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	\$ 197,797
General Fund	Due from Federal & State	
	- NYS sales tax	597,907
General Fund	Other receivables	159,000
Special Revenue:		
Water Fund	Accounts receivable	
	- water rents and meter	771,337
Water Fund	Due from Federal & State	
Sewer Fund	Accounts receivable	
	- sewer rents	742,784
Sewer Fund	Due from Federal & State	
Community Development:		
Revolving Loan	Loan receivable	224,247
1 st Time Home	Loan receivable	117,695
Housing Rehab	Loan receivable	7,470
Capital Projects	Due from Federal & State	
	- various projects	422,841
Capital Projects	Other receivables	1,786
		<u>\$ 3,242,864</u>

B. Liabilities

1. Deferred Revenue

Deferred revenue at May 31, 2012 was as follows:

	General Fund	Special Revenue Fund
Real property taxes	\$ 4,683,729	\$ -
Payment in-lieu of taxes	10,870	-
Special assessment taxes	1,882	-
Revolving loans	-	223,997
Housing Rehab	-	7,500
1 st Time Home	-	117,692
	<u>\$ 4,696,481</u>	<u>\$ 349,189</u>

Deferred real property taxes reflect collections during May 2012 for real property taxes levied on May 1 for the 2012-2013 fiscal year. Deferred special assessment taxes consist of levies on property owners to be collected after May 31, 2012. 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,	2012	\$ 606,241	\$ 933,658
	2011	452,267	715,537
	2010	252,672	552,605

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.

CITY OF OLEAN, NEW YORK
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NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

2. Pension Plans

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, 2012 the City contributed approximately \$99,000 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

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table summarizes the City's annual OPEB cost for 2012, the amount actually contributed to the Plan, and the changes in the City's net OPEB obligation (asset):

Normal Cost	\$ 7,273
Amortization of unfunded actuarial accrued liability	161,616
Interest adjustment	(2,977)
Annual required contribution adjustment	3,067
Annual OPEB cost (expense)	168,979
Contributions made	(99,362)
Increase in net OPEB obligation/(asset)	69,617
Net OPEB obligation/(asset) – beginning of year	(66,218)
Net OPEB obligation-end of year	\$3,399

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/12	\$ 168,979	58.8%	\$ 3,399
6/30/11	\$ 166,643	110.1%	\$ (66,218)
6/30/10	\$169,287	121.2%	\$ (49,335)

Funding Status and Funding Progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$1,336,369, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was approximately \$0 and the ratio of unfunded actuarial liability to the covered payroll was 0% as the actuarial accrued liability was related to retirees of the City.

NOTE 3 – DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Funding Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

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

Mortality – Life expectancies were based on the 1994 GAR Mortality Table.

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

Health insurance premiums – 2008 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

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

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

3. Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions

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

4. Short-Term Debt

a. Bond Anticipation Notes

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

4. Short-Term Debt (continued)

a. Bond Anticipation Notes (continued)

On August 11, 2011, the *City of Olean, New York* issued bond anticipation notes, 2011 Series A (various purposes) in the amount of \$7,160,000. The notes are dated August 11, 2011 with a maturity date of August 9, 2012 and were issued with the option of prepayment on any date on or after February 15, 2012. The notes carry interest rates of 1.07% and were used to finance the following projects:

Reconstruction and construction of sewer improvements – Two Mile Sewer	\$ 4,725,000
Sanitary sewer system improvements (East Olean sewer system)	2,435,000
	<u>\$ 7,160,000</u>

On August 11, 2011, the *City of Olean, New York* issued bond anticipation notes, 2011 Series B (various purposes) in the amount of \$4,070,000. The notes are dated August 11, 2011 with a maturity date of August 9, 2012 and were issued without the option of prepayment. The notes carry interest rates of 1.75% and were used to finance the following projects:

Reconstruction and construction of water improvements – City Water System	\$ 3,460,000
Reconstruction and construction of sewer improvements – City Sewer System	340,000
Reconstruction and construction of improvements to Woodview Avenue	270,000
	<u>\$ 4,070,000</u>

In March, 2012, the *City of Olean, New York* issued E.F.C. Clean Water Facility bond anticipation notes, 2011 Series A and 2011 Series B in the amounts of \$1,361,500 and \$380,606, respectively. The notes mature on September 29, 2014. The Series A bond anticipation note carries a 0% interest rate, while the Series B bond anticipation note carries an interest rate of .51%. The proceeds from this short-term issuance were utilized to pay down the principal on the East Olean Sewer System bond anticipation notes in the amount of \$1,742,106. In addition, during May 2012 the City also made a principal and interest payment of \$47,105 and \$10,355, respectively, on the short-term EFC Clean Water Facility bond anticipation notes.

NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

4. Short-Term Debt (continued)

The City's bond anticipation notes outstanding as of May 31, 2012 are as follows:

Description	Amount	Interest Rate
East Olean Sewer System	\$ 692,894	1.07%
Energy Performance Contract	3,800,000	1.75%
Two Mile Creek	4,725,000	1.07%
Woodview Ave Paving	270,000	1.75%
EFC East Olean Sewer	1,695,001	Various
Totals	<u>\$ 11,182,895</u>	

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, 2012 and 2011.

c. Short-Term Debt Interest

Interest expense related to the bond anticipation notes amounted to \$161,123 during the fiscal year ended May 31, 2012 of which \$4,080, \$61,597, and \$95,446 was incurred in the general, water, and sewer funds, respectively.

5. Long-Term Debt

a. Debt Limit

At May 31, 2012 the total outstanding indebtedness of the City aggregated \$33,782,321 (including bond anticipation notes and revenue anticipation notes). Of this amount, \$2,712,127 is subject to the constitutional debt limit and represented approximately 8.03% 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. There were no serial bonds issued during the 2011-12 fiscal year.

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, 2012 was \$71,363. 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 \$42,365, 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.

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, 2012 of \$14,268, \$73,342, and \$7,609, respectively.

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 \$411,623 5-year capital lease with First Niagara Bank. Equipment included in the lease agreement consists of a 2009 Vac-Con Sewer Cleaner and a 2009 Pelican Street Sweeper. During the current fiscal year, principal and interest paid on this capital lease totaled approximately \$87,729, 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, 2012 of \$35,092 and, \$52,637, respectively.

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NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (continued)

5. Long-Term Debt (continued)

e. Summary Long-Term Debt

The following is a summary of bonds outstanding as of May 31, 2012:

	<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding May 31, 2012</u>
General Fund					
Various Purpose	08/04	938,383	Various	08/14	101,625
Public Improvement Bond	08/06	1,160,000	Various	08/14	285,000
Public Improvement Bond	08/10	870,000	Various	08/20	762,000
Deficit Financing Bond	08/10	2,000,000	Various	08/20	1,265,552
Special Revenue Funds					
Water Filtration Plant	03/03	2,790,591	Various	10/32	2,135,000
Water Filtration Plant	07/03	1,809,453	Various	07/23	1,185,000
Water Reservoir	07/03	4,665,163	Various	07/24	3,265,000
Water Filtration Plant	02/04	5,868,000	4.50%	02/39	5,200,000
Water Fund – Various	08/04	207,262	Various	08/14	13,125
Water Fund – Various	08/09	325,000	Various	08/19	265,000
Water Fund – Odor Control	08/09	339,190	4.70%	08/16	245,000
Water Fund – Deficit Financing Bond	08/10	2,000,000	Various	08/20	284,924
Sewer Fund – Various	08/04	82,905	Various	08/14	5,250
Sewer Fund – Public Imp.	08/06	80,000	Various	08/14	30,000
Sewer Fund – Various	08/09	580,000	Various	08/19	475,000
Sewer Fund – Catch Basin	08/10	585,000	Various	08/20	535,000
Sewer Fund – Deficit Financing Bond	08/10	2,000,000	Various	08/20	197,524
Total					<u>\$ 16,250,000</u>

f. Changes

The following is a summary of changes in long-term liabilities for the period ended May 31, 2012:

	<u>Payable at June 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at May 31, 2012</u>
Bonds	\$ 6,570,000	\$ -	\$ 920,000	\$ 5,650,000
EFC Grid Note/Bond	2,210,000	-	75,000	2,135,000
EFC Grid Bond	3,475,000	-	210,000	3,265,000
RD Bond	5,297,000	-	97,000	5,200,000
Subtotal	<u>17,552,000</u>	<u>-</u>	<u>1,302,000</u>	<u>16,250,000</u>
Due to Other				
Governments	95,353	-	23,990	71,363
Environmental Liability	732,000	-	-	732,000
Retirement Incentive	96,460	-	67,767	28,693
Compensated Absences	333,281	-	9,288	323,993
Other Post-Employment Benefits	-	3,399	-	3,399
Capital Leases	1,216,741	-	125,512	1,091,229
	<u>2,473,835</u>	<u>3,399</u>	<u>226,557</u>	<u>2,250,677</u>
	<u>\$ 20,025,835</u>	<u>\$ 3,399</u>	<u>\$ 1,528,557</u>	<u>\$ 18,500,677</u>

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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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 \$676,657 for the year ended May 31, 2012, of which \$844 was recorded in the general fund, while \$675,813 was recorded in the debt service fund.

h. Maturity

The following table summarizes the City's future serial bond debt, Rural Development, capital leases and EFC bond and debt service requirements as of May 31, 2012:

Year Ending May 31	Total	Principal	Interest
2013	\$ 1,687,276	\$ 1,157,000	\$ 530,276
2014	1,679,760	1,181,000	498,760
2015	1,666,450	1,201,000	465,450
2016	1,548,683	1,116,000	432,683
2017	1,535,094	1,136,000	399,094
2018-2022	5,667,950	4,133,000	1,534,950
2023-2027	3,471,149	2,488,000	983,149
2028-2032	2,343,824	1,706,000	637,824
2033-2037	1,799,795	1,496,000	303,795
2038-2042	665,053	636,000	29,053
Total	\$22,065,034	\$ 16,250,000	\$ 5,815,034

The following table summarizes the City's future amounts due to other governments as of May 31, 2012

Year Ending May 31	Total	Principal	Interest
2013	\$ 24,835	\$ 24,232	\$ 603
2014	24,835	24,475	360
2015	22,769	22,656	113
Total	\$ 72,439	\$ 71,363	\$ 1,076

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
2013	\$ 201,539	\$ 131,494	\$ 70,045
2014	187,094	123,357	63,737
2015	113,809	56,229	57,580
2016	113,808	60,234	53,574
2017	113,808	64,524	49,284
2018-2022	569,043	398,464	170,579
2023-2027	284,521	256,927	27,594
Total	\$ 1,583,622	\$ 1,091,229	\$ 492,393

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.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 - DETAIL NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transactions

Interfund receivables and payables at May 31, 2012 and interfund transactions during the fiscal year ended May 31, 2012 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	\$ 47,483	\$ 617,850	\$ 568,210	\$ -	\$ 30,000	\$ 2,239,359
Capital Projects Fund	975,244	-	-	-	3,076,575	30,000
Agency Fund	2,716	9,513	-	-	-	-
Debt Service Fund	-	81,787	-	-	1,846,991	-
Sewer Fund	110,828	584,749	97,771	-	-	1,530,615
Water Fund	157,598	-	-	665,981	-	1,153,592
Housing Rehab Fund	30	-	-	-	-	-
Totals	<u>\$ 1,293,899</u>	<u>\$ 1,293,899</u>	<u>\$ 665,981</u>	<u>\$ 665,981</u>	<u>\$ 4,953,566</u>	<u>\$ 4,953,566</u>

During the current year, the General, Water, and Sewer funds transferred \$798,784, \$593,592, and \$454,615, 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 \$1,440,575, \$560,000, and \$1,076,000 to the City's Capital Projects fund for cost associated with the East State Street Construction, vehicle replacement, Narrow Band Radio Upgrade, and other assorted capital projects. The City's capital project fund also transferred \$30,000 to the general fund.

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 expired Civil Service Employees Association Unit and Olean Professional Fire Fighters Association whose contracts all have expired on May 31, 2011.

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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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, 2012, 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 assets as an estimate of the cost of remedial actions; this liability has been reduced by related costs incurred during the current and prior years and as of May 31, 2012, 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 \$966,000 was paid during prior fiscal years. The remaining \$28,693 is recognized as a liability in the Statement of Net Assets. Future payments related to the incentive are as follows:

Year Ending May 31	Incentive
2013	\$ 4,100
2014	4,000
2015	4,000
2016	4,000
2017-2022	12,593
Total	<u>\$ 28,693</u>

CITY OF OLEAN, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2012

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NOTE 5 – FUND BALANCE

1. Classification

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

Category/Fund	Description	May 31, 2012
Restricted:		
Debt Service	Reserve for debt service	\$ 381,650
Capital	Capital Reserve	\$ 4,015,389
Assigned		
General	Reserve for encumbrances	\$ 307,346
Water	Reserve for encumbrances	\$ 136,863
	Special Revenue Fund Balance	583,176
		\$ 720,039
Sewer	Reserve for encumbrances	\$ 48,400
	Special Revenue Fund Balance	678,889
		\$ 727,289
First Time Homebuyers	Special Revenue Fund Balance	\$ 23,163
Housing Rehab	Special Revenue Fund Balance	\$ 2,719
Revolving Loan	Special Revenue Fund Balance	\$ 327,923

2. Accumulated Deficits

The *City of Olean, New York's* capital project funds had an accumulated deficit as of May 31, 2012 which totaled approximately \$6,045,000. It is not uncommon for municipalities to have deficit fund balances in the capital project fund as a result of short-term debt (bond anticipation notes) being recorded as liabilities until they are converted to long-term debt at which time such proceeds are recorded as other financing sources (revenue). As of May 31, 2012, the *City of Olean, New York* had certain projects (Two Mile Sewer and East Olean Sewer) 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.

3. Residual Equity Transfers

During the year ended May 31, 2012, the *City of Olean, New York* transferred remaining fund balance of \$82,128 from the Odor Control capital project fund to the debt service fund. In addition, during the year ended May 31, 2012, the *City of Olean, New York* transferred remaining fund balance of \$25,429 from the Roof Construction capital project fund to the debt service fund. Amounts transferred will be utilized in future years to pay down debt.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events were evaluated through November 15, 2012, which is the date the financial statements were available to be issued.

The following debt was issued subsequent to May 31, 2012:

Bond Payables – Capital Projects

On August 9, 2012, the *City of Olean, New York* issued public improvement serial bonds, 2012 Series (various purposes) in the amount of \$9,250,000. The bonds are dated August 9, 2012 with a maturity date of August 1, 2032. The bonds maturing on or before August 1, 2021 will not be subject to redemption, in whole or in part, prior to maturity. The bonds maturing on or after August 1, 2022 will be subject to redemption prior to maturity, at the option of the City, on August 1, 2022. The first interest payments are due on February 1, 2013 while the first principal payments are due on August 1, 2013. The notes carry interest rates ranging from 2% to 3% and were issued to finance the following projects:

Reconstruction and construction of sewer improvements – Two Mile Sewer	\$ 4,585,000
Reconstruction and construction of improvements to the City's East Olean Sewer System	670,000
Reconstruction and construction of improvements to the City's Water System	3,425,000
Reconstruction and construction of improvements to the City's Sewer System	330,000
Reconstruction and construction of improvements to the Woodview Ave	240,000
	<u>\$ 9,250,000</u>

On August 1, 2012, the *City of Olean, New York* issued state revenue bonds in the amount of \$1,731,059. The bonds are dated August 1, 2012 with a maturity date of May 1, 2033. The first interest payments are due on November 15, 2012 while the first principal payments are due on May 1, 2013. The notes carry interest rates ranging from 0% to 4.169% and were issued to finance the following projects:

Sanitary sewer system improvements (East Olean Sewer System) (EFC)	\$ 1,731,059
	<u>\$ 1,731,059</u>

SUPPLEMENTARY INFORMATION

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
GENERAL FUND
AS OF MAY 31, 2012 AND 2011

Page 39

	May 31 2012	May 31 2011
<u>Assets</u>		
Cash on hand	\$ 1,308	\$ 1,308
Cash on deposit		
Regular accounts	10,593,521	10,659,510
Receivables		
Refuse and garbage	1,869	1,869
Special assessment	1,882	1,824
Accounts receivable	155,249	211,253
Due from other funds	47,483	47,514
Advances to other funds	568,210	533,837
State and federal	795,704	679,107
Total assets	\$ 12,165,226	\$ 12,136,222
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts payable	\$ 284,255	\$ 321,290
Accrued liabilities	553,116	450,061
Due to other funds	617,850	430,601
Due to employee retirement system	253,070	206,660
Other liabilities	16,044	166,685
Deferred revenue	4,696,481	4,307,564
Total liabilities	6,420,816	5,882,861
Fund Equity		
Assigned	307,346	525,786
Unassigned	5,437,064	5,727,575
Total fund equity	5,744,410	6,253,361
	\$ 12,165,226	\$ 12,136,222

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY
GENERAL FUND****FOR THE FISCAL YEARS ENDED MAY 31, 2012 AND 2011****Page 40**

	May 31 2012	May 31 2011
Revenue		
Real property taxes	\$ 6,990,983	\$ 6,993,342
Special assessment tax - real property	20,379	1,544
Real property tax items	199,363	289,320
Non-property tax items	4,451,814	4,597,008
Departmental income	1,401,875	1,330,034
Intergovernmental charges	150,545	164,661
Use of money and property	21,268	26,302
Licenses and permits	47,367	61,706
Fines and forfeitures	93,550	89,744
Sales of property and compensation for loss	935	4,640
Miscellaneous local sources	7,774	33,582
State aid	2,724,689	2,697,758
Federal aid	207,720	198,561
Total revenue	16,318,262	16,488,202
Expenditures		
General government support	2,101,229	2,137,658
Public safety	5,261,844	5,098,629
Health	55,217	59,154
Transportation	2,185,578	1,685,203
Culture and recreation	1,105,889	845,295
Home and community services	135,455	157,547
Employee benefits	3,713,728	3,351,055
Debt service:		
Principal	23,990	23,752
Interest	4,924	27,225
Total expenditures	14,587,854	13,385,518
Excess of revenue over expenditures	1,730,408	3,102,684
Other financing sources (uses)		
BANS redeemed from appropriations	(30,000)	(80,000)
Proceeds from issuance of serial bonds - deficit financing	-	1,429,382
Operating transfers in	30,000	-
Operating transfers out	(2,239,359)	(906,459)
Total other financing sources (uses)	(2,239,359)	442,923
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(508,951)	3,545,607
Fund equity, beginning of year	6,253,361	2,707,754
Fund equity, end of year	\$ 5,744,410	\$ 6,253,361

CITY OF OLEAN, NEW YORK
COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS
AS OF MAY 31, 2012

Page 41

	Water	Sewer	Community Development			(Memo only) Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Assets						
Cash on hand	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ 40
Cash on deposit						
Regular accounts	659,426	557,871	335,055	2,719	23,185	1,578,256
Receivables						
Accounts receivable	771,337	742,784	-	-	-	1,514,121
Advances to other funds	-	97,771	-	-	-	97,771
Due from other funds	157,598	110,828	-	30	-	268,456
Revolving loans receivable	-	-	224,247	-	-	224,247
First Time Homebuyers loans receivable	-	-	-	-	117,695	117,695
Rehabilitation loans receivable	-	-	-	7,470	-	7,470
Total assets	\$ 1,588,401	\$ 1,509,254	\$ 559,302	\$ 10,219	\$ 140,880	\$ 3,808,056
Liabilities						
Accounts payable	\$ 116,864	\$ 65,639	\$ -	\$ -	\$ -	\$ 182,503
Accrued liabilities	57,128	42,384	-	-	-	99,512
Due to other funds	-	584,749	-	-	-	584,749
Advances from other funds	665,981	-	-	-	-	665,981
Other liabilities/due to retirement systems	28,389	89,193	7,382	-	25	124,989
Deferred revenue	-	-	223,997	7,500	117,692	349,189
Total liabilities	868,362	781,965	231,379	7,500	117,717	2,006,923
Fund Equity						
Assigned	720,039	727,289	327,923	2,719	23,163	1,801,133
Total fund equity	720,039	727,289	327,923	2,719	23,163	1,801,133
Total liabilities and fund equity	\$ 1,588,401	\$ 1,509,254	\$ 559,302	\$ 10,219	\$ 140,880	\$ 3,808,056

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY - ALL SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MAY 31, 2012**

	Water	Sewer	Community Development			(Memo only) Total
			Revolving Loan Fund	Housing Rehabilitation Fund	First Time Homebuyers Fund	
Revenue						
Departmental income	\$ 3,293,797	\$ 3,111,813	\$ 83,340	\$ 475	\$ 27,071	\$ 6,516,496
Intergovernmental charges	-	329,918	-	-	-	329,918
Use of money and property	-	-	1,416	2	3	1,421
Sales of property & compensation for loss	4,409	-	-	-	-	4,409
State aid	-	4,864	-	-	-	4,864
Total revenue	3,298,206	3,446,595	84,756	477	27,074	6,857,108
Expenditures						
General government support	60,665	58,359	-	-	-	119,024
Home and community services	1,790,034	1,807,579	15,049	3,955	29,878	3,646,495
Employee benefits	494,385	515,713	-	-	-	1,010,098
Debt service - interest expense	61,597	95,446	-	-	-	157,043
Total expenditures	2,406,681	2,477,097	15,049	3,955	29,878	4,932,660
Excess (deficiency) of revenue over expenditures	891,525	969,498	69,707	(3,478)	(2,804)	1,924,448
Other financing uses						
BANs redeemed from appropriations	(30,000)	(257,105)	-	-	-	(287,105)
Operating transfers out	(1,153,592)	(1,530,615)	-	-	-	(2,684,207)
Total financing uses	(1,183,592)	(1,787,720)	-	-	-	(2,971,312)
Excess (deficiency) of revenue over expenditures and other financing uses	(292,067)	(818,222)	69,707	(3,478)	(2,804)	(1,046,864)
Fund equity, beginning of year	1,012,106	1,545,511	258,216	6,197	25,967	2,847,997
Fund equity, end of year	\$ 720,039	\$ 727,289	\$ 327,923	\$ 2,719	\$ 23,163	\$ 1,801,133

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SPECIAL REVENUE FUNDS
AS OF MAY 31, 2012 AND 2011

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	May 31 2012	May 31 2011
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	1,578,256	2,098,722
Accounts receivable	1,514,121	1,592,172
Advances to other funds	97,771	96,170
Due from other funds	268,456	40,426
Revolving loans receivable	224,247	273,419
First time homebuyers loans receivable	117,695	123,226
Rehabilitation loans receivable	7,470	7,826
Total assets	\$ 3,808,056	\$ 4,232,001
Liabilities		
Accounts payable	\$ 182,503	\$ 123,942
Accrued liabilities	99,512	53,842
Due to other funds	584,749	120,558
Advances from other funds	665,981	630,007
Other liabilities/due to retirement systems	124,989	51,187
Deferred revenues	349,189	404,468
Total liabilities	2,006,923	1,384,004
Fund Equity		
Assigned	1,801,133	2,847,997
Total fund equity	1,801,133	2,847,997
Total liabilities and fund equity	\$ 3,808,056	\$ 4,232,001

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, 2012 AND 2011****Page 44**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 6,516,496	\$ 6,616,132
Intergovernmental charges	329,918	121,260
Miscellaneous income	-	8,014
Use of money and property	1,421	2,160
Sales of property and compensation for loss	4,409	8,689
State aid	4,864	705
Total revenue	6,857,108	6,756,960
Expenditures		
General government support	119,024	114,419
Home and community services	3,646,495	3,715,875
Employee benefits	1,010,098	931,363
Debt service - interest expense	157,043	191,112
Total expenditures	4,932,660	4,952,769
Excess of revenue over expenditures	1,924,448	1,804,191
Other financing sources (uses)		
BANs redeemed from appropriations	(287,105)	(220,000)
Proceeds from issuance of serial bonds - deficit financing	-	306,701
Operating transfers out	(2,684,207)	(1,401,087)
Total other financing uses	(2,971,312)	(1,314,386)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(1,046,864)	489,805
Fund equity, beginning of year	2,847,997	2,358,192
Fund equity, end of year	\$ 1,801,133	\$ 2,847,997

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
WATER FUND
AS OF MAY 31, 2012 AND 2011

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	May 31 2012	May 31 2011
Assets		
Cash on hand	\$ 40	\$ 40
Cash on deposit		
Regular accounts	659,426	917,619
Accounts receivable	771,337	791,880
Due from other funds	157,598	36,622
Total assets	\$ 1,588,401	\$ 1,746,161
Liabilities		
Accounts payable	\$ 116,864	\$ 53,107
Accrued liabilities	57,128	28,100
Advances from other funds	665,981	630,007
Other liabilities/due to retirement systems	28,389	22,841
Total liabilities	868,362	734,055
Fund Equity		
Assigned	720,039	1,012,106
Total fund equity	720,039	1,012,106
Total liabilities and fund equity	\$ 1,588,401	\$ 1,746,161

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - WATER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2012 AND 2011****Page 46**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 3,293,797	\$ 3,327,986
Miscellaneous income	-	1,496
Sales of property and compensation for loss	4,409	8,689
Total revenue	3,298,206	3,338,171
Expenditures		
General government support	60,665	57,469
Home and community services	1,790,034	1,785,261
Employee benefits	494,385	457,151
Debt service - interest expense	61,597	61,844
Total expenditures	2,406,681	2,361,725
Excess of revenue over expenditures	891,525	976,446
Other financing sources (uses)		
BANS redeemed from appropriations	(30,000)	(30,000)
Proceeds from issuance of serial bonds - deficit financing	-	78,711
Operating transfers out	(1,153,592)	(888,494)
Total other financing sources (uses)	(1,183,592)	(839,783)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(292,067)	136,663
Fund equity, beginning of year	1,012,106	875,443
Fund equity, end of year	\$ 720,039	\$ 1,012,106

CITY OF OLEAN, NEW YORK**STATEMENT OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL - WATER FUND****FOR THE FISCAL YEAR ENDED MAY 31, 2012****Page 47**

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,437,515	\$ 3,437,515	\$ 3,293,797	\$ -	\$ (143,718)
Sales of property and compensation for loss	-	-	4,409	-	4,409
Total revenue	3,437,515	3,437,515	3,298,206	-	(139,309)
Expenditures					
General government support	212,500	202,500	60,665	-	141,835
Home and community services	2,035,515	2,088,374	1,790,034	136,863	161,477
Employee benefits	506,783	506,783	494,385	-	12,398
Debt service - interest expense	-	-	61,597	-	(61,597)
Total expenditures	2,754,798	2,797,657	2,406,681	136,863	254,113
Excess (deficiency) of revenue over expenditures	682,717	639,858	891,525	(136,863)	114,804
Other financing sources (uses)					
BANS redeemed from appropriations	-	-	(30,000)	-	(30,000)
Operating transfers out	(681,532)	(1,241,532)	(1,153,592)	-	87,940
Total other financing sources (uses)	(681,532)	(1,241,532)	(1,183,592)	-	57,940
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 1,185	\$ (601,674)	\$ (292,067)	\$ (136,863)	\$ 172,744

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
SEWER FUND
AS OF MAY 31, 2012 AND 2011

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	May 31 2012	May 31 2011
Assets		
Cash	\$ 557,871	\$ 885,297
Accounts receivable	742,784	800,292
Advances from other funds	97,771	96,170
Due from other funds	110,828	3,804
Total assets	\$ 1,509,254	\$ 1,785,563
Liabilities		
Accounts payable	\$ 65,639	\$ 70,835
Accrued liabilities	42,384	25,742
Due to other funds	584,749	120,558
Other liabilities/due to other governments	89,193	22,917
Total liabilities	781,965	240,052
Fund Equity		
Assigned	727,289	1,545,511
Total fund equity	727,289	1,545,511
Total liabilities and fund equity	\$ 1,509,254	\$ 1,785,563

CITY OF OLEAN, NEW YORK**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY - SEWER FUND
FOR THE FISCAL YEARS ENDED MAY 31, 2012 AND 2011****Page 49**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 3,111,813	\$ 3,159,090
Miscellaneous income	-	6,518
Intergovernmental charges	329,918	121,260
State aid	4,864	705
Total revenue	3,446,595	3,287,573
Expenditures		
General government support	58,359	56,950
Home and community services	1,807,579	1,866,966
Employee benefits	515,713	474,212
Debt service - interest expense	95,446	129,268
Total expenditures	2,477,097	2,527,396
Excess of revenue over expenditures	969,498	760,177
Other financing sources (uses)		
BANs redeemed from appropriations	(257,105)	(190,000)
Proceeds from issuance of serial bonds - deficit financing	-	227,990
Operating transfers out	(1,530,615)	(512,593)
Total other financing uses	(1,787,720)	(474,603)
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(818,222)	285,574
Fund equity, beginning of year	1,545,511	1,259,937
Fund equity, end of year	\$ 727,289	\$ 1,545,511

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - SEWER FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2012

	Original Budget	Amended Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Revenue					
Departmental income	\$ 3,243,653	\$ 3,243,653	\$ 3,111,813	\$ -	\$ (131,840)
Intergovernmental charges	175,000	175,000	329,918	-	154,918
State aid	-	-	4,864	-	4,864
Total revenue	3,418,653	3,418,653	3,446,595	-	27,942
Expenditures					
General government support	211,000	135,000	58,359	-	76,641
Home and community services	1,875,985	1,885,191	1,807,579	48,400	29,212
Employee benefits	538,599	538,599	515,713	-	22,886
Debt service - interest expense	-	-	95,446	-	(95,446)
Total expenditures	2,625,584	2,558,790	2,477,097	48,400	33,293
Excess (deficiency) of revenue over expenditures	793,069	859,863	969,498	(48,400)	61,235
Other financing sources (uses)					
BANs redeemed from appropriations	-	-	(257,105)	-	(257,105)
Operating transfers out	(775,566)	(1,851,566)	(1,530,615)	-	320,951
Total other financing uses	(775,566)	(1,851,566)	(1,787,720)	-	63,846
Excess (deficiency) of revenue over expenditures and other financing uses	\$ 17,503	\$ (991,703)	\$ (818,222)	\$ (48,400)	\$ 125,081

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
REVOLVING LOAN FUND
AS OF MAY 31, 2012 AND 2011

Page 51

	May 31 2012	May 31 2011
Assets		
Cash on deposit - Regular accounts	\$ 335,055	\$ 263,645
Rehabilitation loans receivable	224,247	273,419
Total assets	\$ 559,302	\$ 537,064
Liabilities		
Deferred revenue	\$ 223,997	\$ 273,419
Due to other agency	7,382	5,429
Total liabilities	231,379	278,848
Fund Equity		
Assigned	327,923	258,216
Total fund equity	327,923	258,216
Total liabilities and fund equity	\$ 559,302	\$ 537,064

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, 2012 AND 2011****Page 52**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 83,340	\$ 103,019
Use of money and property	1,416	2,108
Total revenue	84,756	105,127
Expenditures		
Home and community services	15,049	-
Total expenditures	15,049	-
Excess of revenue over expenditures and other uses	69,707	105,127
Fund equity, beginning of year	258,216	153,089
Fund equity, end of year	\$ 327,923	\$ 258,216

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
HOUSING REHABILITATION FUND
AS OF MAY 31, 2012 AND 2011

Page 53

	May 31 2012	May 31 2011
Assets		
Cash on deposit - regular accounts	\$ 2,719	\$ 6,197
Due from other funds	30	-
Rehabilitation loans receivable	7,470	7,826
Total assets	\$ 10,219	\$ 14,023
Liabilities		
Deferred revenue	\$ 7,500	\$ 7,826
Total liabilities	7,500	7,826
Fund Equity		
Assigned	2,719	6,197
Total fund equity	2,719	6,197
Total liabilities and fund equity	\$ 10,219	\$ 14,023

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, 2012 AND 2011****Page 54**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 475	\$ 436
Use of money and property	2	5
Total revenue	477	441
Expenditures		
Home and community services	3,955	9,602
Total expenditures	3,955	9,602
Deficiency of revenue over expenditures	(3,478)	(9,161)
Deficiency of revenue over expenditures and other uses	(3,478)	(9,161)
Fund equity, beginning of year	6,197	15,358
Fund equity, end of year	\$ 2,719	\$ 6,197

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
FIRST TIME HOMEBUYERS PROGRAM
AS OF MAY 31, 2012 AND 2011

Page 55

	May 31 2012	May 31 2011
Assets		
Cash on deposit - regular accounts	\$ 23,185	\$ 25,964
First time homebuyers loans receivable	117,695	123,226
Total assets	\$ 140,880	\$ 149,190
Liabilities		
Deferred revenue	\$ 117,692	\$ 123,223
Other liabilities	25	-
Total liabilities	117,717	123,223
Fund Equity		
Assigned	23,163	25,967
Total fund equity	23,163	25,967
Total liabilities and fund equity	\$ 140,880	\$ 149,190

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, 2012 AND 2011****Page 56**

	May 31 2012	May 31 2011
Revenue		
Departmental income	\$ 27,071	\$ 25,601
Use of money and property	3	47
Total revenue	27,074	25,648
Expenditures		
Home and community services	29,878	54,046
Total expenditures	29,878	54,046
Deficiency of revenue over expenditures	(2,804)	(28,398)
Deficiency of revenue over expenditures and other uses	(2,804)	(28,398)
Fund equity, beginning of year	25,967	54,365
Fund equity, end of year	\$ 23,163	\$ 25,967

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
AS OF MAY 31, 2012 AND 2011

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	May 31 2012	May 31 2011
Assets		
Cash on deposit - regular accounts	\$ 4,251,813	\$ 2,179,699
Accounts receivable	1,786	-
Due from Federal and State	422,841	215,766
Due from other funds	975,244	551,159
Total assets	\$ 5,651,684	\$ 2,946,624
Liabilities		
Accounts payable	\$ 414,000	\$ 262,620
Accrued liabilities/due to other governments	100,000	100,000
Bond anticipation notes payable	11,182,895	11,500,000
Total liabilities	11,696,895	11,862,620
Fund Equity		
Restricted	4,015,389	1,303,575
Unassigned (deficit)	(10,060,600)	(10,219,571)
Total fund equity (deficit)	(6,045,211)	(8,915,996)
Total liabilities and fund equity	\$ 5,651,684	\$ 2,946,624

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, 2012 AND 2011****Page 58**

	May 31 2012	May 31 2011
Revenue		
Use of money and property	\$ 5,145	\$ 7,128
Miscellaneous local sources	146,966	179,028
Federal aid	648,726	459,623
State aid	798,702	383,604
Total revenue	1,599,539	1,029,383
Expenditures		
General government support	343,597	1,095,329
Public safety	185,355	204,561
Transportation	1,354,016	1,066,430
Home and community services	101,909	1,727,535
Total expenditures	1,984,877	4,093,855
Deficiency of revenue over expenditures	(385,338)	(3,064,472)
Other financing sources (uses)		
Bond anticipation notes redeemed from appropriations	317,105	300,000
Proceeds from issuance of serial bonds - construction	-	1,455,000
Proceeds from issuance of serial bonds - deficit financing	-	263,917
Operating transfers in	3,126,576	679,182
Operating transfers out	(80,001)	(125,000)
Total other financing sources	3,363,680	2,573,099
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	2,978,342	(491,373)
Fund deficit, beginning of year	(8,915,996)	(8,424,623)
Residual equity transfer	(107,557)	-
Fund deficit, end of year	\$ (6,045,211)	\$ (8,915,996)

CITY OF OLEAN, NEW YORK

BALANCE SHEET - CAPITAL PROJECTS FUND - BY PROJECT

AS OF MAY 31, 2012

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Project Number	Description	Cash	Other accounts receivable	Due from Federal & State	Due from/(to) Other Funds	Total Assets	Accounts Payable & Accrued Expenses	BAN's/ Notes Payable	Fund Equity (Deficit)	Total Liabilities & Fund Equity
29	CHIPS	\$ 77,939	\$ -	\$ -	\$ 105,621	\$ 183,560	\$ -	\$ -	\$ 183,560	\$ 183,560
87	Landfill - Olean Airport	56,980	-	-	312	57,292	-	-	57,292	57,292
101	ALARM	4,538	1,786	-	9,634	15,958	-	-	15,958	15,958
102	Vehicle replacement	130,068	-	-	50,000	180,068	-	-	180,068	180,068
103	Police Equipment Replacement	2,508	-	-	28,169	30,677	-	-	30,677	30,677
116	Fire arson equipment	11,471	-	-	-	11,471	-	-	11,471	11,471
117	Dispatch project	11,071	-	-	-	11,071	-	-	11,071	11,071
118	Ambulance reserve	85,637	-	-	11,020	96,657	-	-	96,657	96,657
119	OATS Bus Reserve	22,651	-	-	572	23,223	-	-	23,223	23,223
120	Water filtration plant	20,000	-	-	-	20,000	3,115	-	16,885	20,000
121	East State Bridge	(1,279)	-	-	1,279	-	-	-	-	-
123	Catch basin disconnect project	314,415	-	-	34,749	349,164	100,000	-	249,164	349,164
125	Main Street Bridge	-	-	-	11,467	11,467	-	-	11,467	11,467
132	Parking lot maintenance program	4,663	-	-	4,016	8,679	-	-	8,679	8,679
133	Parking lots repaving & rehab	59,728	-	-	-	59,728	-	-	59,728	59,728
137	Telephone System	4,000	-	-	-	4,000	-	-	4,000	4,000
141	Aircraft Parking Apron	(7,990)	-	-	7,990	-	-	-	-	-
143	Energy Audit	138,592	-	-	-	138,592	-	3,800,000	(3,661,408)	138,592
144	East Olean Sewer	457,872	-	-	-	457,872	-	2,387,895	(1,930,023)	457,872
145	Two Mile Sewer	551,619	-	-	-	551,619	2,802	4,725,000	(4,176,183)	551,619
146	Airport Master Plan	(152,284)	-	422,841	85,415	355,972	380,889	-	(24,917)	355,972
147	Safe Schools Route	6,480	-	-	100,000	106,480	-	-	106,480	106,480
148	Woodview Avenue Paving Project	1,931	-	-	-	1,931	-	270,000	(268,069)	1,931
149	Bartlett House Renovations	70,750	-	-	-	70,750	-	-	70,750	70,750
150	Sidewalk Improvement Reserve	24,915	-	-	-	24,915	-	-	24,915	24,915
153	East State Street and East End Sewer	1,994,912	-	-	550,000	2,544,912	26,994	-	2,517,918	2,544,912
154	HVAC Reserve	50,001	-	-	-	50,001	200	-	49,801	50,001
155	Courtroom Repairs	50,000	-	-	-	50,000	-	-	50,000	50,000
156	Wastewater Plant Belt Press Reserve	40,000	-	-	-	40,000	-	-	40,000	40,000
157	Narrow Band Radio Upgrade	113,000	-	-	-	113,000	-	-	113,000	113,000
158	Traffic Signal Upgrade Project	17,000	-	-	-	17,000	-	-	17,000	17,000
159	Rec Center Compressor Reserve	65,000	-	-	-	65,000	-	-	65,000	65,000
160	Downtown Facilities Upgrades	25,050	-	-	(25,000)	50	-	-	50	50
161	Other Miscellenous Reserves	575	-	-	-	575	-	-	575	575
Totals		\$ 4,251,813	\$ 1,786	\$ 422,841	\$ 975,244	\$ 5,651,684	\$ 514,000	\$ 11,182,895	\$ (6,045,211)	\$ 5,651,684

CITY OF OLEAN, NEW YORK
SCHEDULE OF EXPENDITURES-
CAPITAL PROJECTS FUND - BY PROJECT
FOR THE FISCAL YEARS ENDED MAY 31, 2012 AND 2011

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Project	May 31 2012	May 31 2011
CHIPS	\$ 393,286	\$ 447,495
City Alarms	10,849	11,704
Vehicle Replacement	267,180	577,982
Police Equipment Replacement Reserve	23,890	-
Water filtration plant	3,115	-
East State Bridge	-	218
Catch basin disconnect project	-	10,668
Parking Lot Maintenance	560	-
Parking Lot Repaving and Rehabilitation	7,731	-
Roof Construction	-	1,539
Energy Audit	49,112	515,808
East Olean Sewer	64,186	1,686,910
Two Mile Sewer	54,096	29,181
Airport Master Plan	884,614	336,544
Safe Routes to Schools	174,506	192,857
Sidewalk Improvement Reserve	100	-
East State Street and East End Sewer	32,082	-
Woodview Avenue Paving Project	17,120	280,949
HVAC Reserve	200	-
Bartlett House Renoavtions	2,250	2,000
	<hr/>	<hr/>
	\$ 1,984,877	\$ 4,093,855

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
DEBT SERVICE FUND
AS OF MAY 31, 2012 AND 2011

Page 61

	May 31 2012	May 31 2011
Assets		
Cash on deposit		
Restricted regular accounts	\$ 463,437	\$ 610,896
Total assets	\$ 463,437	\$ 610,896
Liabilities		
Due to other funds	\$ 81,787	\$ 81,143
Total liabilities	81,787	81,143
Fund Equity		
Restricted	381,650	529,753
Total fund equity	381,650	529,753
Total liabilities and fund equity	\$ 463,437	\$ 610,896

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, 2012 AND 2011****Page 62**

	May 31 2012	May 31 2011
Revenue		
Use of money and property	\$ 674	\$ 784
Total revenue	<u>674</u>	<u>784</u>
Expenditures		
General government support	-	11,245
Debt service:		
Principal	1,427,512	1,137,985
Interest	675,813	604,134
Total expenditures	<u>2,103,325</u>	<u>1,753,364</u>
Deficiency of revenue over expenditures	<u>(2,102,651)</u>	<u>(1,752,580)</u>
Other financing sources		
Operating transfers in	1,846,991	1,753,364
Total other financing sources	<u>1,846,991</u>	<u>1,753,364</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(255,660)	784
Fund equity, beginning of year	529,753	528,969
Residual equity transfer	107,557	-
Fund equity, end of year	<u>\$ 381,650</u>	<u>\$ 529,753</u>

CITY OF OLEAN, NEW YORK
COMPARATIVE BALANCE SHEETS
AGENCY FUND
AS OF MAY 31, 2012 AND 2011

Page 63

	May 31 2012	May 31 2011
Assets		
Cash on deposit		
Regular accounts	\$ 111,495	\$ 100,978
Restricted accounts	128,976	140,457
Due from other funds	2,716	2,716
Total assets	\$ 243,187	\$ 244,151
Liabilities		
Due to other funds	\$ 9,513	\$ 9,513
Other liabilities	233,674	234,638
Total liabilities	\$ 243,187	\$ 244,151

CITY OF OLEAN, NEW YORK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND BALANCES - AGENCY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2012

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	Balance June 1, 2011	Receipts	Disbursements	Balance May 31, 2012
Hospitalization	\$ 1,444	\$ 504,697	\$ 503,833	\$ 2,308
Charity - United Way	209	458	494	173
Guarantee & Bid Bonds	500	-	-	500
Guarantee & Bid deposits	1,277	1	-	1,278
Building Improvement Fund-HDCP	459	-	-	459
Children's Memorial Flower Grdn	357	116	-	473
Stadium Renovations / Donations	4,062	-	-	4,062
Y&R St. John's	6,954	1,460	1,140	7,274
Mayor's Cup Golf Tournament	4,498	-	2,544	1,954
Bike Auction	5,772	1,919	-	7,691
Miscellaneous Recreation	10,228	12,875	11,200	11,903
William O. Smith Recreation Center	-	1,827	-	1,827
Clerk Sales	1,098	220	-	1,318
Bartlett House Donations	15,601	7,945	763	22,783
Donations Fire Equipment	25	-	-	25
Police Drugs Donations	18,757	2,432	10,991	10,198
Police Federal Drug Proceeds	4,415	4	-	4,419
Youth Programs Donations	57	-	-	57
DARE	4,084	-	3,574	510
Youth Court Donations	7,889	10	394	7,505
Tree Program	1,334	10,126	673	10,787
Interest & Service Charges	444	115	-	559
Personnel	2,376	270	561	2,085
Fire Equipment Donations	9,139	-	-	9,139
Flexible Spending Account	(8,274)	-	-	(8,274)
Medical Savings Account	121,925	123,690	119,164	126,451
Payroll Account	18,952	9,749,202	9,762,894	5,260
Special Account	1,056	15,525	15,631	950
Totals	\$ 234,638	\$ 10,432,892	\$ 10,433,856	\$ 233,674

CITY OF OLEAN, NEW YORK
SCHEDULE OF FUNDING PROGRESS
AS OF MAY 31, 2012

Page 65

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

CITY OF OLEAN, NEW YORK**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2012****Page 66**

Federal Program Title	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Receivable 5/31/2011	Total Received	Revenue	Expenditures	Receivable 5/31/2012
<u>United States Department of Transportation</u>								
Airport Improvement Program - Taxiway Lighting*	20.106	FAA AIP No. 3-36-0091-15-11 NYS DOT PIN 5904.45	\$ 475,000	\$ -	\$ 23,476	\$ 435,018	\$ 435,018	\$ 411,542
Airport Improvement Program - Snow Removal Equipment *	20.106	FAA AIP 3-36-0091-14-10 PIN 5904.44	205,200	50,469	63,974	13,505	13,505	-
Airport Improvement Program - Airport Property Map *	20.106	FAA AIP 3-36-0091-13-10 PIN 5904.44	178,600	21,518	39,004	17,486	17,486	-
Highway Planning and Construction	20.205	NYS DOT/D032498 PIN 5759.08	395,000	85,460	268,177	182,717	182,717	-
ARRA Section 5311 Transportation Grant **	20.509	PIN 5799.17.401	133,200	-	-	133,200	133,200	133,200
ARRA Section 5311 Transportation Grant - Bus and Bus Shelter **	20.509	NYS Contract # C003839	195,000	-	74,520	74,520	74,520	-
Subtotal U.S. Department of Transportation			1,582,000	157,447	469,151	856,446	856,446	544,742
Total			\$ 1,582,000	\$ 157,447	\$ 469,151	\$ 856,446	\$ 856,446	\$ 544,742

Note 1 - Basis of Presentation

The accompanying Schedule of Federal Awards includes Federal grant activity of the City of Olean, New York and is presented on the modified accrual basis of accounting. The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore some amounts in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

* Constitutes a cluster of Federal programs

** Constitutes a cluster of Federal programs



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

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

We have audited the financial statements of the governmental activities and each major fund of the *City of Olean, New York* as of and for the year ended May 31, 2012, which collectively comprise the *City of Olean, New York's* basic financial statements and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the *City of Olean, New York* is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered *City of Olean, New York's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items II.A.2012-1, II.A.2012-2, II.A.2012-3 and II.A.2012-4 to be material weaknesses.

Compliance and Other Matters

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

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

We noted other matters involving internal control over financial reporting that we have reported to management of *City of Olean, New York* in a separate letter dated November 15, 2012.

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 15, 2012**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the *City of Olean, New York* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2012. The *City of Olean, New York's* major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Olean, New York's* management. Our responsibility is to express an opinion on the *City of Olean, New York's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the *City of Olean, New York's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Olean, New York's* compliance with those requirements.

In our opinion, the *City of Olean, New York's* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2012.

Internal Control Over Compliance

Management of *City of Olean, New York* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *City of Olean, New York 's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal award program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items III.B.2012-5, III.B.2012-6, and III.B.2012-7 to be material weaknesses.

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

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated November 15, 2012.

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
November 15, 2012**

CITY OF OLEAN, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2012

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I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses a qualified opinion on the government-wide financial statements and an unqualified opinion on the fund financial statements of the **City of Olean, New York**.
2. There were four deficiencies noted during the audit of the financial statements as described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items II.A.2012-1, II.A.2012-2, II.A.2012-3, and II.A.2012-4 are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the **City of Olean, New York** were disclosed during the audit as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
4. There were three deficiencies disclosed during the audit of the major federal assistance programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133. Items III.B.2012-5, III.B.2012-6, and III.B.2012-7 are reported as material weaknesses.
5. The auditors' report on compliance for the major federal awards programs of the **City of Olean, New York** expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. Major programs tested:

Name	Type	CFDA #	Federal Expenditures
U.S. Department of Transportation Airport Improvement Grant – Snow Removal Equip *	(Type A)	20.106	\$ 13,505
U.S. Department of Transportation Airport Improvement Grant – Airport Property Map *	(Type A)	20.106	17,486
U.S. Department of Transportation Airport Improvement Grant– Taxiway Lighting *	(Type A)	20.106	435,018
Total tested			\$ 466,009
Total Federal Awards			\$ 856,446
Percentage of total programs tested			54.4%

* Constitutes a cluster of federal programs.

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The **City of Olean, New York** was not determined to be a low-risk auditee.

II. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. Internal Control over Financial Reporting

2012-1 Federal and State Grants

Year ended May 31, 2012

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 similar to instances that occurred during the 2009 and 2010 years.

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

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

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

Year ended May 31, 2011

Similar finding was reported upon during the year ended May 31, 2011

2012-2 Segregation of Duties – Bank Reconciliations

Year Ended May 31, 2012

Condition and Criteria: During the audit, we noted that presently there is no formal review of bank reconciliations performed by someone independent of the preparer. During the current year, the City contracted with an individual to perform reviews of certain cash functions in an effort to enhance segregation of duties over cash, however, there was no documentation present to verify that a review of the bank reconciliations were being performed in an effective manner. Furthermore, the balance per the bank reconciliation did not agree with the City's general ledger cash accounts. In addition, during the current year, many adjusting journal entries were required to be made to the City's cash balances during the course of the annual audit.

Effect: Segregation of duties is a key element to an effective internal control environment. Because the reconciliation of cash is vital to its operations, the lack of proper segregation of duties in this area heightens the City's risk of potential errors and/or fraud.

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

City's Response: Due to the nature, complexity, and manual nature of the City's finance structure, the City Auditor is responsible for preparing the bank reconciliations for the majority of the accounts. The City will consider the auditors' recommendation.

Year ended May 31, 2011

Similar finding was reported upon during the year ended May 31, 2011.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS

A. Internal Control over Financial Reporting (continued)

2012-3 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year Ended May 31, 2012

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: The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 115, entitled Communicating Internal Control Related Matters in an Audit. This standard considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency.

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, 2011

Similar finding was reported upon during the year ended May 31, 2011.

2012-4 Reconciliation of General Ledger

Year Ended May 31, 2012

Condition and Criteria: During the current and prior fiscal years, we noted the City experienced difficulties in reconciling manual records with the City's pre-packaged accounting general ledger system. Although dual systems were maintained throughout the year, differences that arose in certain balance sheet accounts and revenue and expense accounts were not investigated and corrected until the audit. During our audit, we also noted that the City does not perform reconciliations of asset and liability accounts during the year on a regular or routine basis, which resulted in certain new bank accounts opened during the year not being posted to the general ledger in a timely manner.

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. During the current audit, the lack of reconciliation resulted in several audit adjustments.

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 and other on a regular basis.

Year ended May 31, 2011

Similar finding was reported upon during the year ended May 31, 2011

II. FINANCIAL STATEMENTS AUDIT – FINDINGS

A. Internal Control over Financial Reporting (continued)

2011-5 Payroll System Review and Analysis

Year Ended May 31, 2012

This finding is not being reported upon in the current fiscal year.

Year ended May 31, 2011

Condition and Criteria: Although the City utilizes a third-party provider to process its payroll, we noted that payroll change reports are not reviewed by someone independent of the individual responsible for submitting payroll information to the third-party provider. In addition, we noted instances in which the City paid certain employees throughout the year at rates less than that stipulated in their contractual agreements. This circumstance was primarily related to longevity pay increases that went into effect on the employees' anniversary date.

Effect: The lack of independent review of change reports creates a lack of segregation of duties with one individual having the ability to change pay rates without proper oversight. Additionally, without regular and routine independent review of third party payroll change reports, employees could be paid at rates which differ from that stated in their contractual agreement.

Auditors' Recommendation: We recommend that someone independent of the individual responsible for submitting payroll information to the third-party provider be assigned to review payroll change reports on a regular and routine basis. This process should be performed to ensure pay rates are consistent with the City's contractual agreements and that any new employees are verified. This review process should be well documented.

City's Response: The City understands the importance of having good controls over payroll and will consider the auditors' recommendation.

2011-2012 Update: During the current year the City implemented a procedure in which the payroll change reports were reviewed by an individual independent of the payroll process.

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (Continued)

B. Compliance

Year ended May 31, 2012

There are no compliance findings being reported upon for the fiscal year ended May 31, 2012.

Year ended May 31, 2011

There were no compliance findings reported upon for the fiscal year ended May 31, 2011.

CITY OF OLEAN, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2012

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

A. Compliance

Year ended May 31, 2012

No compliance findings are being reported upon during the fiscal year ended May 31, 2012.

Year ended May 31, 2011

No compliance findings were reported upon for the fiscal year ended May 31, 2011.

B. Internal Control over Compliance

Year ended May 31, 2012

All Federal Awards

2012-5 Federal and State Grants

Same finding as that reported as II.A.2012-1 above.

2012-6 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Same finding as that reported as II.A.2012-2 above.

2012-7 Reconciliation of General Ledger

Same finding as that reported as II.A.2012-3 above.

Year ended May 31, 2011

The same findings on internal controls over compliance were reported upon for the year ended May 31, 2011.



November 15, 2012

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

Ladies and Gentlemen:

We have completed our 2011-12 audit of the City's financial statements and have issued our reports thereon dated November 15, 2012. Our audit report expressed opinion which states that the City's financial statements are in accordance with generally accepted accounting principles (except for not having a current appraisal to substantiate fixed assets) for governments. In addition, we have issued separate reports on internal controls over financial reporting and compliance with laws and regulations as required by Government Auditing Standards and OMB Circular A-133.

In planning and performing our audit of the financial statements of the *City of Olean, New York* for the fiscal year ended May 31, 2012, 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.

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.

Budget Transfers

The City prepares budget transfers where accounts with leftover appropriations are transferred to accounts which experienced budget shortfalls. Any transfers made between fund types or transfers that are made from one expense category to another are first authorized by the Common Council. Budget transfers are ultimately entered within the City's accounting software which gives management the ability to monitor budget versus actual results. We noticed during our audit, however, that the City's current year encumbrances/commitments are currently being reduced from the budget within the City's accounting software. We recommend that the City contact its software provider and determine whether encumbrance/commitments can be presented in a separate column rather than being deducted from the budget as the total budgeted expenditures should agree to that approved by the Common Council.

Allocation of Salaries

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

Journal entries and wire transfers

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

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 in both prior years and current year, these funds have been transferred to the City's debt service fund. These funds have been accumulated in the 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.

Accumulated Deficit – Airport Master Plan Capital Project Fund

The *City of Olean, New York's* Airport Master Plan capital project fund had an accumulated deficit of \$24,917 as of May 31, 2012. Funding for this capital project originates from state, federal and local sources. 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.

Policies and Procedures

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

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

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

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

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

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

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

Agency Fund

Reconciliation of Medical Savings Account

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

Adequacy of Account Activity

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

Disbursements

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

Equipment and Inventory

It is extremely important for all entities to have processes in place so that assets are properly safeguarded against loss or misuse. The following are internal controls that the City should consider implementing.

Equipment

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

Maintenance and Transportation Supplies

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

Fixed Assets

Capitalization Thresholds

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

Fixed Asset Reconciliation

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

Technology

Disaster recovery plan

Ensuring that all IT systems are properly backed up is essential for governmental entities. Although, the City typically performs restore tests throughout the year, there is no formal schedule as to when these backups are performed. We recommend that the City perform backup restore tests on a regular basis, which should be adequately documented. In addition, the City should develop a comprehensive disaster recovery plan which outlines the procedures it would take in the event that all stored data files were lost unexpectedly in its technology plan.

Informal policies

During inquiries, we understand that the City has informal policies which guide personnel in creating and changing employee passwords, suspending terminated employees account access, routine workstation and server audit policy and workstation and workstation data security. The City should attempt to formalize these internal policies.

In addition, the City should identify those individuals that currently have access to various modules within its accounting software. A listing of individuals with rights to perform various accounting transactions should be maintained, reviewed and verified by someone independent of the auditor's office on a regular basis. As part of this process, restrictions should be placed on certain functions such as the individual processing payroll should not have access to the payroll module where changes to pay rates are made.

STATISTICAL SECTION

General Governmental Expenditures by Function

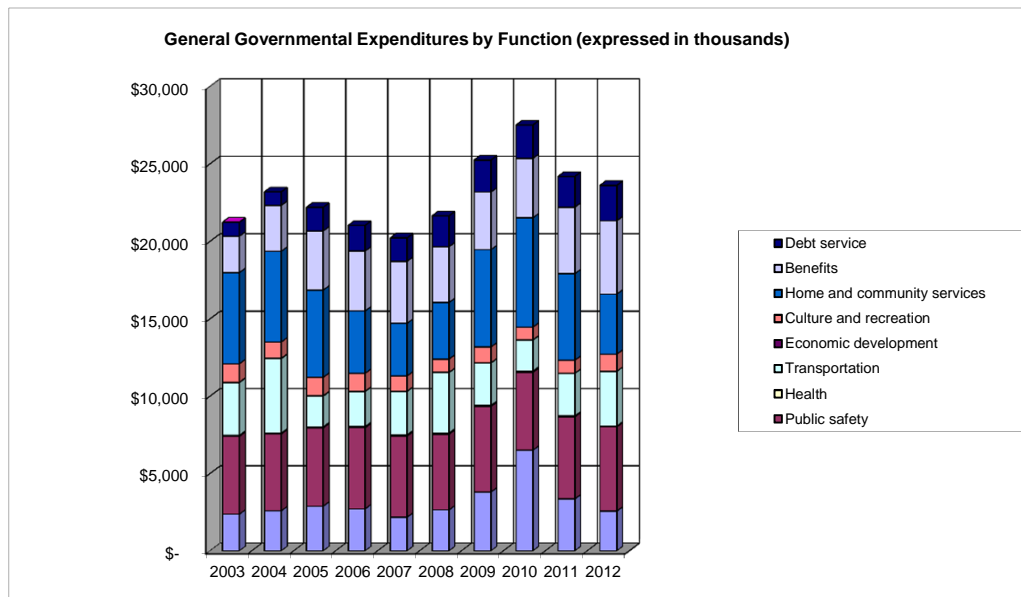
Governmental Funds

Last Ten Fiscal Years

(amounts expressed in thousands)

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government support	\$ 2,370	\$ 2,588	\$ 2,885	\$ 2,716	\$ 2,173	\$ 2,648	\$ 3,799	\$ 6,504	\$ 3,359	\$ 2,564
Public safety	5,030	4,968	5,063	5,239	5,244	4,890	5,534	5,036	5,303	5,447
Health	68	61	72	82	84	85	74	86	59	55
Transportation	3,411	4,809	1,981	2,267	2,810	3,902	2,731	2,002	2,752	3,540
Economic development	26	26	26	15	15	15	15	15	-	-
Culture and recreation	1,187	1,050	1,193	1,157	981	857	1,027	817	845	1,106
Home and community services	5,892	5,860	5,637	4,037	3,411	3,661	6,285	7,065	5,601	3,884
Benefits	2,343	2,956	3,808	3,860	3,991	3,592	3,715	3,828	4,282	4,724
Debt service	904	874	1,530	1,660	1,512	1,997	2,065	2,151	1,984	2,289
Total	\$ 21,231	\$ 23,192	\$ 22,195	\$ 21,033	\$ 20,221	\$ 21,647	\$ 25,245	\$ 27,504	\$ 24,185	\$ 23,609

Source: City of Olean Annual Report (2003-2012)



City of Olean

General Governmental Revenues by Source

Governmental Funds

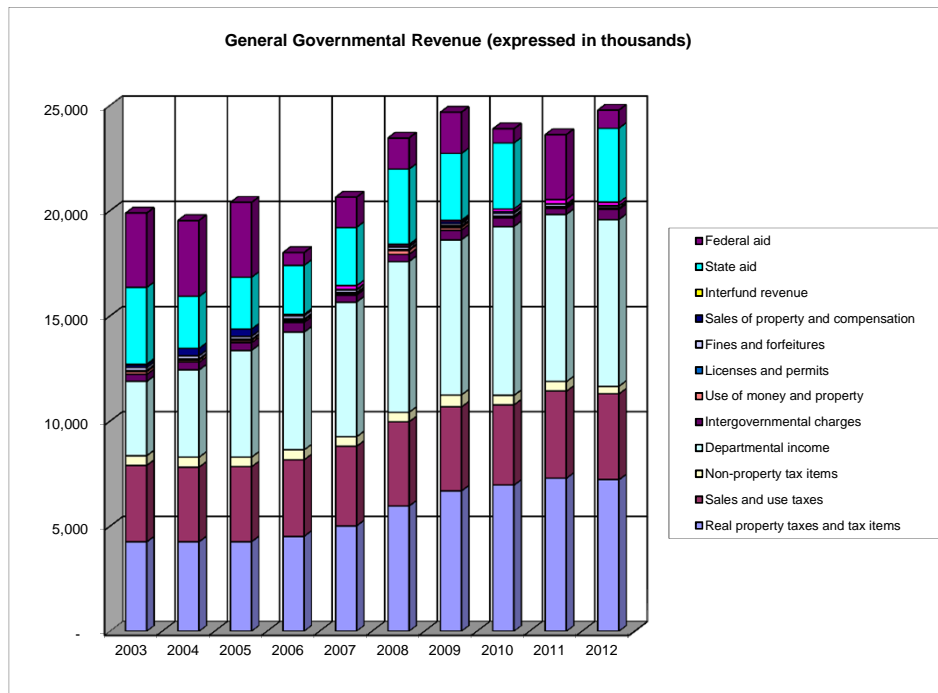
Last Ten Fiscal Years

(amounts expressed in thousands)

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<u>Source</u>	<u>2003</u>	<u>2004</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>
Real property taxes and tax items	\$ 4,254	\$ 4,262	\$ 4,262	\$ 4,518	\$ 5,013	\$ 5,954	\$ 6,679	\$ 6,953	\$ 7,284	\$ 7,211
Sales and use taxes	3,642	3,550	3,569	3,642	3,784	4,009	3,995	3,822	4,142	4,087
Non-property tax items	459	474	455	468	454	452	572	450	455	364
Departmental income	3,531	4,152	5,082	5,599	6,409	7,169	7,374	8,023	7,946	7,919
Intergovernmental charges	337	366	359	464	327	339	457	416	286	481
Use of money and property	128	103	104	95	70	189	127	44	36	29
Licenses and permits	64	59	59	64	54	52	78	38	62	47
Fines and forfeitures	130	142	142	150	110	108	96	131	90	94
Sales of property and compensation	124	355	347	21	37	33	92	83	13	5
Miscellaneous local sources	43	-	-	55	175	89	77	126	221	155
Interfund revenue	-	-	-	-	-	-	-	-	-	-
Bad debt expense	-	-	-	59	-	-	-	-	-	-
State aid	3,640	2,463	2,460	2,324	2,774	3,575	3,170	3,130	3,082	3,528
Federal aid	3,530	3,611	3,551	606	1,426	1,481	1,955	667	658	856
	<u>\$ 19,882</u>	<u>\$ 19,537</u>	<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>

Source: City of Olean Annual Report (2003-2012)

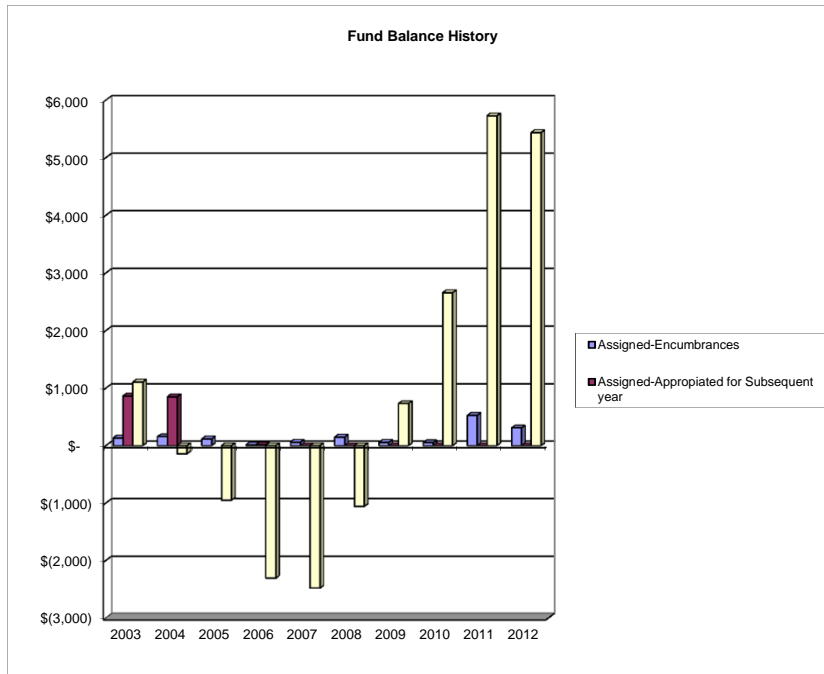


City of Olean
Fund Balance History
General Fund

Last Ten Fiscal Years
(amounts expressed in thousands)

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<u>Source</u>	<u>2003</u>	<u>2004</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>
Assigned-Encumbrances	\$ 134	\$ 154	\$ 116	\$ 14	\$ 59	\$ 148	\$ 55	\$ 49	\$ 525	\$ 307
Assigned-Appropriated for Subsequen	864	850		15	-	-	-	-	-	-
Unassigned	1,107	(141)	(949)	(2,309)	(2,480)	(1,058)	732	2,658	5,728	5,437
Total	<u>\$ 2,105</u>	<u>\$ 863</u>	<u>\$ (833)</u>	<u>\$ (2,280)</u>	<u>\$ (2,421)</u>	<u>\$ (910)</u>	<u>\$ 787</u>	<u>\$ 2,707</u>	<u>\$ 6,253</u>	<u>\$ 5,744</u>



Source: City of Olean Annual Report (2003-2012)

Assessed and Equalized Full Value of Taxable Property (1)

Last Ten Fiscal Years

(amounts expressed in thousands)

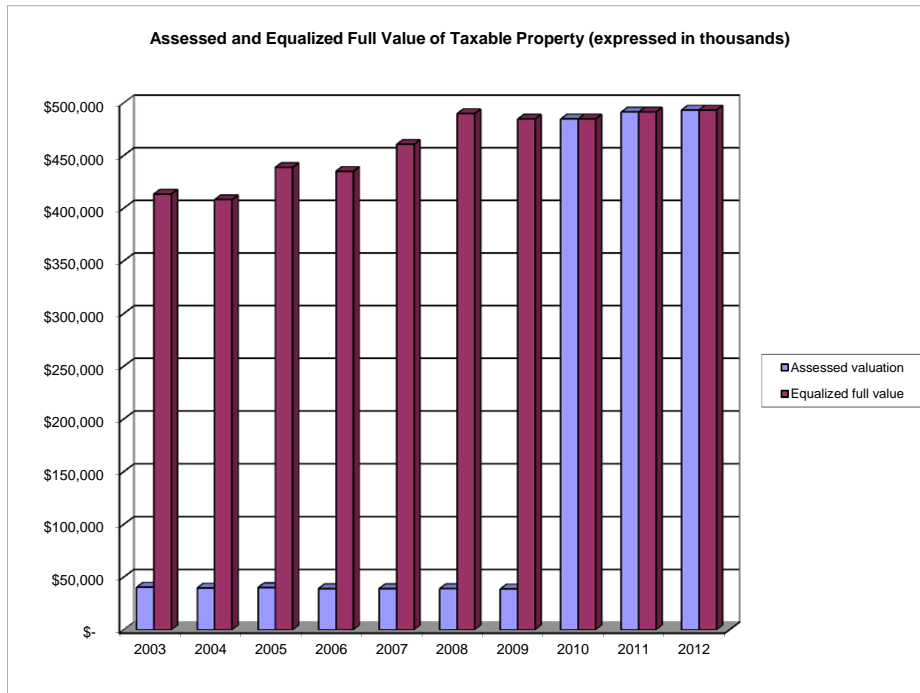
Source

	2003	2004	2005	2006	2007	2008	2009	2010	2011	#	2012
Assessed valuation	\$ 40,319	\$ 39,782	\$ 40,052	\$ 39,154	\$ 39,141	\$ 39,178	\$ 38,725	\$ 484,646	\$ 491,202		\$ 493,281
Equalized full value	413,528	408,021	438,686	435,044	460,482	489,725	484,520	484,646	491,202		493,281
Ratio: Assessed value to											
equalized full value	9.75%	9.75%	9.13%	9.00%	8.50%	8.00%	7.99%	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 (2003-2012)



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

Last Ten Fiscal Years

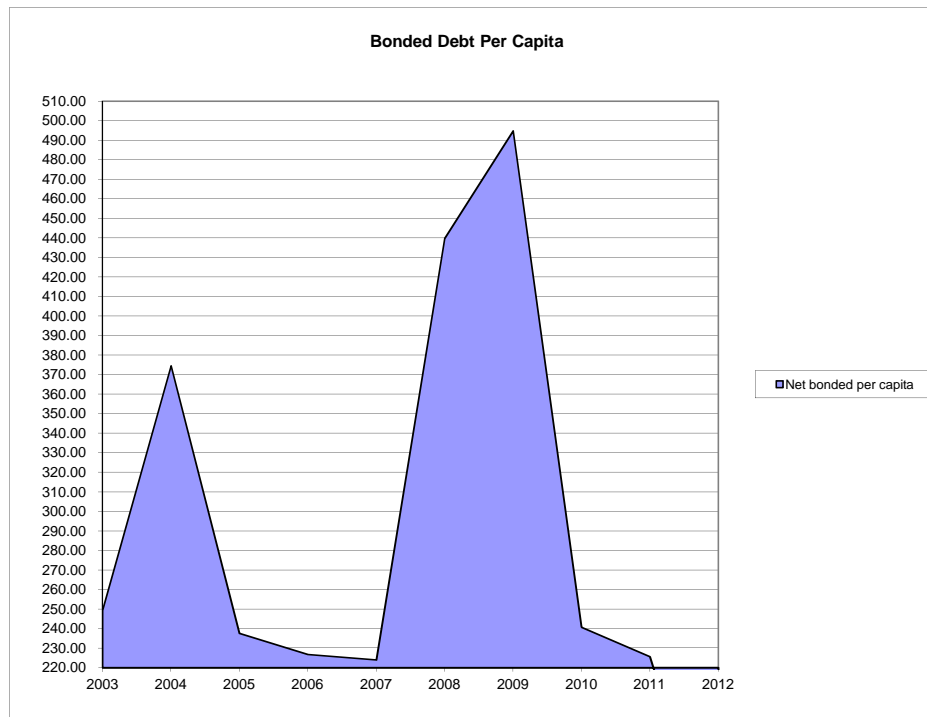
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<u>Source</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net bonded per capita	249.50	374.54	237.57	226.75	223.95	439.70	494.82	240.76	225.57	113.55
Population	15,347	15,347	15,347	15,347	15,347	15,347	15,347	15,347	14,452	14,452
Assessed value (000)	40,319	39,782	40,052	39,154	39,141	39,178	38,725	48,465	49,120	49,328
Gross bonded debt (000)	15,523	19,022	20,278	20,565	23,022	26,110	32,786	30,584	29,052	27,433
Less: self-supporting debt (000)	11,694	13,274	16,632	17,085	19,585	19,362	25,192	26,889	25,792	25,792
Net bonded debt (000)	3,829	5,748	3,646	3,480	3,437	6,748	7,594	3,695	3,260	1,641
Ratio of net bonded debt to assessed value	<u>9.50%</u>	<u>14.45%</u>	<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>3.33%</u>

Notes:

Self-supporting debt includes water debt

Sources: Population (2003-2010) were obtained from the 2000 census
Population (2011-2012) 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 2003-2012



Ratio of General Obligation Debt Service to
Total General Expenditures

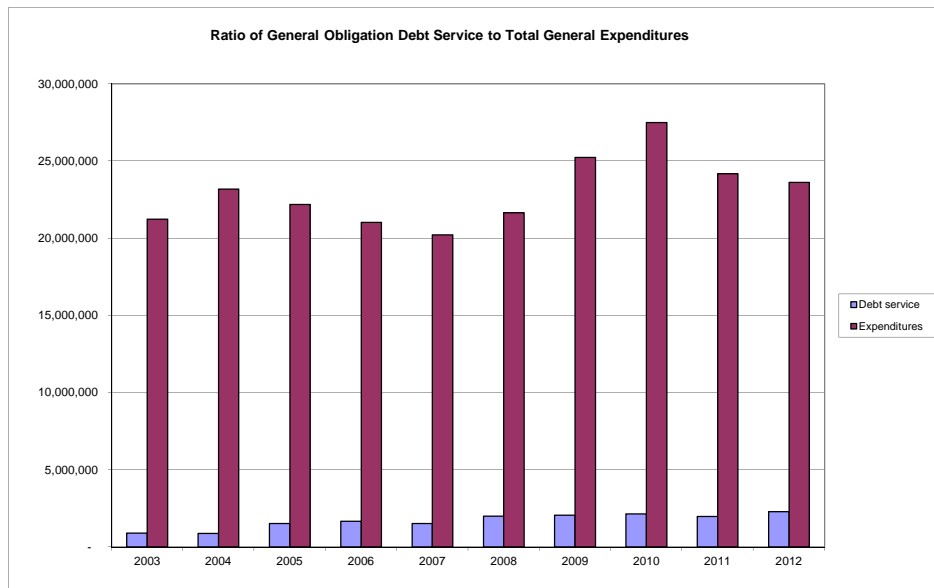
Last Ten Fiscal Years

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Source	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt service	904,000	874,000	1,530,000	1,660,000	1,512,000	1,997,000	2,065,000	2,151,000	1,984,000	2,289,000
Expenditures	21,231,000	23,192,000	22,195,000	21,033,000	20,221,000	21,647,000	25,245,000	27,504,000	24,185,000	23,609,000
Ratio of general debt service to total general expenditures	4.26%	3.77%	6.89%	7.89%	7.48%	9.23%	8.18%	7.82%	8.20%	9.70%

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, 2012

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<u>Taxpayer</u>	<u>Type of Business</u>	<u>Estimated Equalized Full Value</u>	<u>Percentage of Equalized Full Value</u>
Park Centre Development	Real Estate	\$ 14,156,800	2.88%
National Grid	Public Utility	14,146,495	2.88%
Indeck-Olean LP	Utility Company	10,060,000	2.05%
NYSEG	Public Utility	10,472,413	2.13%
2501 West State St Co. LLC	Grocery Store	6,950,000	1.41%
Dresser-Rand Industries	Manufacturing	6,762,440	1.38%
Cutco Cutlery Corp. & Alcas	Manufacturing	5,021,600	1.02%
ZRAJ Olean, LLC	Shopping Mall	5,019,275	1.02%
Troy CMBS Prop.	Large Retail	4,300,000	0.88%
Olean Medical Properties	Health Care	4,276,800	0.87%
Total		\$ 81,165,823	16.52%

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.

