TOWN OF EVANS, NEW YORK

Basic Financial Statements, Required Supplementary Information and Supplemental Schedules for the Year Ended December 31, 2011 and Independent Auditors' Reports

cc: Town Bd
Town Atty
Finance
provided By
Supervisor's Secretary

TOWN OF EVANS, NEW YORK
Table of Contents
Year Ended December 31, 2011

Independent Auditors' Report 1

Management's Discussion and Analysis ("MD&A") 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets (Deficit) 11

Statement of Activities 12

Fund Financial Statements:

Balance Sheet—Governmental Funds 13

Reconciliation of the Balance Sheet—Governmental Funds to the Statement of Net Assets (Deficit) 14

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)—Governmental Funds 15

Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General Fund 17

Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General—Part-Town Fund 18

Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—Highway—Part-Town Fund 19

Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—Fire Protection District 20

Statement of Net Deficit—Proprietary Fund—Water Fund 21

Statement of Revenues, Expenses and Changes in Net Deficit—Proprietary Fund —Water Fund 22

Statement of Cash Flows—Proprietary Fund—Water Fund 23

Statement of Fiduciary Net Assets—Fiduciary Fund 25

Notes to Financial Statements 26

(continued)

TOWN OF EVANS, NEW YORK
Table of Contents
Year Ended December 31, 2011

(concluded)

Combining Fund Statements:

Combining Balance Sheet—Nonmajor Governmental Funds 49

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds 50

Independent Auditors' 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* 51

Schedule of Findings 53

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Town Board
Town of Evans, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Evans, New York (the "Town") as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 discussed in Note 7 to the financial statements, management has not recorded construction-in-progress or general infrastructure assets and the related depreciation expense and accumulated depreciation in its governmental activities and business-type activities. Additionally, the Town has not recorded depreciation expense or accumulated depreciation on any other depreciable asset. Accounting principles generally accepted in the United States of America require that those construction-in-progress and general infrastructure assets be capitalized and all depreciable capital assets be depreciated, which would increase the assets, net assets, and expenses of the governmental activities and business-type activities. In addition, management has not determined the impact of the Town's postemployment benefits other than pensions ("OPEB") and, accordingly, has not recorded an OPEB liability or the related expense. Accounting principles generally accepted in the United States of America require that the Town recognize its OPEB liability, which would increase the liabilities and expenses and decrease the net assets of the governmental activities and the business type activities. The amount by which these departures would affect the assets, net assets, and expenses of the governmental activities and business-type activities is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, business-type activities and proprietary fund – Water Fund, of the Town, as of December 31, 2011, or the changes in financial position and cash flows thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the Town, as of December 31, 2011 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, to the basic financial statements, the Town's business-type activity—Water Fund has deficit net assets.

In accordance with *Governmental Auditing Standards,* we have also issued our report dated November 21, 2012, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that 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 should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining fund financial statements and schedule listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. These financial statements and schedule are the responsibility of the management of the Town 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 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 basic financial statements as a whole.

[illegible] & M[illegible] LLP

November 21, 2012

TOWN OF EVANS, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2011

As management of the Town of Evans, New York (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2011. This document should be read in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative. For comparative purposes, certain items relating to the year ended December 31, 2010 presentation have been reclassified.

Financial Highlights

- The Town's governmental activities net assets increased $781,149 while its business-type activity net deficit grew by $3,247,896 as a result of this year's activity.
- The liabilities of the primary government of the Town exceeded its assets at the close of the fiscal year by $4,458,339.
- At the close of the current fiscal year, the Town's governmental funds reported combined ending fund balance of $2,307,366, an increase of $713,954 in comparison with the prior year.
- The General Fund reported a net increase in fund balance this year of $336,878.
- The Town's governmental activities paid $120,000 of its previously outstanding bonded indebtedness during the current year. The Town's business-type activity paid $240,000 of its bonded indebtedness and also issued new debt of $11,989,605 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the Town:

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and

expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the Town include the Water Fund.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has three kinds of funds:

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The Town maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General—Part-Town Fund, Highway—Part-Town Fund, Fire Protection District and Capital Projects Fund, all of which are considered to be major funds. Data from the other six funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town adopts an annual appropriated budget for General Fund, General—Part-Town Fund, Highway—Part-Town Fund, Fire Protection District, Highway—Townwide Fund, Street Lighting District, Derby Hydrants Fund, Garbage District and Water District. Budgetary comparison statements have been provided for the Town's major funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Proprietary funds. The Town maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for the Water Fund.

Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund.

The proprietary fund financial statements can be found on pages 21-24.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 25 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-48 of this report.

Other information. As stated earlier, the financial statements include a section with combining statements that provide details about our nonmajor governmental funds, which are added together and presented in a single column in the basic financial statements.

The supplemental financial statements can be found following the notes to the financial statements on pages 49-50 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as useful indicator of a government's financial position. In the case of the Town's governmental activities, assets exceeded liabilities by $9,353,189 at the close of the 2011 fiscal year, as compared to $8,572,040 at the close of the 2010 fiscal year.

Table 1 – Condensed Statement of Net Assets (Deficit)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	$ 2,546,624	$ 2,283,146	$ 2,168,036	$ 2,793,350	$ 4,714,660	$ 5,076,496
Capital assets	8,773,528	8,463,419	271,405	271,405	9,044,933	8,734,824
Total assets	11,320,152	10,746,565	2,439,441	3,064,755	13,759,593	13,811,320
Current liabilities	245,385	698,434	3,308,864	8,433,364	3,554,249	9,131,798
Long-term liabilities	1,721,578	1,476,091	12,942,105	5,195,023	14,663,683	6,671,114
Total liabilities	1,966,963	2,174,525	16,250,969	13,628,387	18,217,932	15,802,912
Invested in capital assets, net of related debt	8,185,117	8,043,419	(11,249,600)	(9,226,716)	(3,064,483)	(1,183,297)
Restricted	858,329	158,644	-	-	858,329	158,644
Unrestricted	309,743	369,977	(2,561,928)	(1,336,916)	(2,252,185)	(966,939)
Total net assets (deficit)	$ 9,353,189	$ 8,572,040	$ (13,811,528)	$ (10,563,632)	$ (4,458,339)	$ (1,991,592)

The largest portion of the Town's net assets (deficit) represents its investment in capital assets (such as land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Town had an investment (deficit) in capital assets, net of related debt deficit totaling $(3,064,483) at December 31, 2011 and assets of $(1,183,297) at December 31, 2010.

An additional portion of the Town's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. Restricted net assets were $858,329 and $158,644 at December 31, 2011 and 2010, respectively.

The remaining balance of net assets (deficit) reflects unrestricted net deficit of $2,252,185 at December 31, 2011. The Town's unrestricted net deficit totaled $966,939 at December 31, 2010.

Total net assets decreased $2,466,747 from the prior year. The decrease in net assets can be primarily attributed to increased expenses related to capital projects for water improvements. Normally, these expenses are considered construction-in-progress and once they are put into operation are classified as infrastructure assets. However, since the Town does not record its infrastructure assets, or the related accumulated depreciation and depreciation expense on those or any other capital asset, it does not capitalize its construction-in-progress expenses. As such, these items are classified as expenses and cause an increase in the unrestricted net deficit.

The Town had a ratio of current assets to current liabilities of 1.33 at December 31, 2011, which increased from 0.56 at December 31, 2010.

Table 2, shown below, presents a comparison of current assets to current liabilities at December 31, 2011 and December 31, 2010.

Table 2 – Current assets and current liabilities

	2011	2010
Current assets	$ 4,714,660	$ 5,076,496
Current liabilities	3,554,249	9,131,798
Ratio of current assets to current liabilities	1.33	0.56

Table 3, as presented below, shows the changes in net assets (deficit) for the years ended December 31, 2011 and December 31, 2010:

Table 3 – Condensed Statement of Revenues, Expenses and Changes in Net Assets (Deficit)

	Governmental Activities		Business-type Activities		Total	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010	2011	2010
Revenues:						
Charges for services	$1,076,282	$ 902,342	$ 1,810,584	$ 1,524,596	$ 2,886,866	$ 2,426,938
Operating grants and contributions	166,341	192,123		-	166,341	192,123
Capital grants and contributions	3,887	32,539	159,421	495,600	163,308	528,139
General revenues	11,626,079	11,427,203	22,509	36,600	11,648,588	11,463,803
Total revenues	12,872,589	12,554,207	1,992,514	2,056,796	14,865,103	14,611,003
Program expenses	12,046,038	12,061,834	5,183,910	5,126,707	17,229,948	17,188,541
(Loss) on disposal of assets	(101,902)	(158,387)	-	(81,705)	(101,902)	(240,092)
Transfers in (out)	56,500	(7,300)	(56,500)	7,300	-	-
Change in net assets (deficit)	781,149	326,686	(3,247,896)	(3,144,316)	(2,466,747)	(2,817,630)
Net assets (deficit)—beginning	8,572,040	8,245,354	(10,563,632)	(7,419,316)	(1,991,592)	826,038
Net assets (deficit)—ending	$9,353,189	$ 8,572,040	$ (13,811,528)	$ (10,563,632)	$ (4,458,339)	$ (1,991,592)

Governmental activities revenues in the year ended December 31, 2011 increased by 2.5 percent as compared to the year ended December 31, 2010 due primarily to a $173,940 increase in charges for service, couple by an increase of miscellaneous revenues by $126,088.

A summary of sources of revenues of the governmental activities for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 4:

Table 4 – Summary of Sources of Revenues

	2011	2010	Increase/(decrease) Dollars	Percent
Charges for services	$ 1,076,282	$ 902,342	$ 173,940	19.3
Operating grants and contributions	166,341	192,123	(25,782)	(13.4)
Capital grants and contributions	3,887	32,539	(28,652)	(88.1)
Property and other taxes	11,023,090	11,017,213	5,877	0.1
Use of money and property	62,538	59,289	3,249	5.5
Miscellaneous	216,340	90,252	126,088	139.7
State aid	324,111	260,449	63,662	24.4
Total revenues, net	$ 12,872,589	$ 12,554,207	$ 318,382	2.5

The most significant source of revenues for governmental activities is property and other taxes, which accounts for $11,023,090, or 85.6 percent of total revenues, for the year ended December 31, 2011 and $11,017,213, or 87.8 percent of total revenues, for the year ended December 31, 2010. The next largest source of revenue is charges for services, which comprises $1,076,282 or 8.4 percent of total revenues and $902,342, or 7.2 percent of total revenues for the years ended December 31, 2011 and 2010, respectively.

Total primary governmental expenses also increased for the year ended December 31, 2011, increasing 0.4 percent from the year ended December 31, 2010. The primary reason for the increase in expenses was due to a $218,204 increase in public safety expenses in addition to a decrease of $163,498 in transportation expenses.

A summary of program expenses for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 5:

Table 5 – Summary of Program Expenses

	2011	2010	Increase/(decrease) Dollars	Percent
General government support	$ 2,047,159	$ 2,062,624	$ (15,465)	(0.7)
Public safety	4,791,871	4,543,875	247,996	5.5
Health	166,382	183,980	(17,598)	(9.6)
Transportation	2,356,160	2,519,658	(163,498)	(6.5)
Economic assistance and opportunity	10,260	11,171	(911)	(8.2)
Culture and recreation	1,191,373	1,262,978	(71,605)	(5.7)
Home and community services	1,431,585	1,404,542	27,043	1.9
Interest and other fiscal charges	51,248	73,006	(21,758)	(29.8)
	$ 12,046,038	$ 12,061,834	$ (15,796)	(0.1)

The Town's most significant governmental activities expense items for the year ended December 31, 2011 were public safety of $4,791,871, or 39.8 percent of total expenses; transportation of $2,356,160, or 19.6 percent of total expenses; and general government support of $2,047,159, or 17.0 percent of expenses. Similarly, the most significant governmental activities expense items for the year ended December 31, 2010 were public safety of $4,543,875, or 37.7 percent of total expenses; transportation of $2,519,658, or 20.9 percent of total expenses; and general government support of $2,062,624, or 17.1 percent of expenses.

Financial Analysis of the Town's Funds

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of $2,307,366, an increase of $713,954 from the prior year's fund balance of $1,593,412.

A discussion of the Town's major operating funds follows:

The Town's General Fund had an ending fund balance of $856,833, an increase of $336,878 in comparison with the prior year. The General Fund reports an unassigned fund balance deficit totaling $2,534,474.

During the year ended December 31, 2011, the Town's General—Part-Town Fund balance decreased by $16,636 from the prior year, resulting in an ending fund balance of $47,127, all of which is committed for retirement.

At December 31, 2011, the Town's Highway—Part-Town Fund reported fund balance of $339,437, an increase of $196,750 in comparison with the prior year. It reports an unassigned fund deficit totaling $36,474.

For the year ended December 31, 2011, the Town's Fire Protection District fund balance increased by $10,242 from the prior year, resulting in an ending fund balance of $154,970.

The Town's Capital Projects fund had an ending fund deficit of $30,834, which is an improvement of $43,133 from its prior year fund deficit of $12,299.

Capital Asset and Debt Administration

Capital Assets. The Town's investment (deficit) in capital assets, net of related debt for its governmental and business-type activities as of December 31, 2011, amounted to $8,185,117 and $(11,249,600), respectively. The investment in capital assets includes land and land improvements, buildings and improvements, vehicles and equipment.

Capital assets for the governmental and business-type activities at the years ended December 31, 2011 and 2010 are presented in Note 7 of this report. A summary of capital assets is shown on the following page.

Table 6 – Summary of Capital Assets

	December 31,	
	2011	2010
Governmental activities:		
Land	$ 385,200	$ 385,200
Buildings	4,053,725	4,053,725
Improvements other than buildings	270,870	270,870
Machinery and equipment	4,063,733	3,753,624
Total governmental activities	$ 8,773,528	$ 8,463,419
Business-type activity:		
Improvements other than buildings	$ 24,597	$ 24,597
Machinery and equipment	246,808	246,808
Total business-type activity	$ 271,405	$ 271,405

Debt. At December 31, 2011, the Town's governmental activities had bonded debt outstanding of $300,000, as compared to $420,000 in the prior year. During 2011, the Town's business-type activities issued new debt of $11,989,605 and made payments of $240,000, resulting in debt outstanding of $12,924,605 at December 31, 2011 as compared to $1,175,000 in the prior year.

Additional information on the Town's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town is located in Erie County within the Western New York region, which has experienced difficult social and economic trends. The Buffalo-Niagara Combined Statistical Areas unemployment rate was 7.9 percent at December 31, 2011. This compares favorably to New York State's average unemployment rate of 8.0 percent.

Although recent inflationary trends in the region, particularly in the real estate sector compared favorably to national indices, over the past two decades the region has experienced a steady decline in population and business. In addition, retirement costs are expected to rise at rates well above inflation. All of these factors are considered in preparing the Town's budgets.

Contacting the Town's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Supervisor's Office, Town of Evans, 8787 Erie Road, Angola, NY 14006.

BASIC FINANCIAL STATEMENTS

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TOWN OF EVANS, NEW YORK
Statement of Net Assets (Deficit)
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 384,789	$ -	$ 384,789
Restricted cash and cash equivalents	975,918	1,403,600	2,379,518
Accounts receivable	57,986	-	57,986
Water rents receivable	-	271,091	271,091
Prepaid items	5,711	-	5,711
Loans receivable	70,000	-	70,000
Due from other governments	1,052,220	493,345	1,545,565
Capital assets not being depreciated	8,773,528	271,405	9,044,933
Total assets	$ 11,320,152	$ 2,439,441	$ 13,759,593
LIABILITIES			
Accounts payable	$ 107,741	$ 234,066	$ 341,807
Accrued liabilities	332,951	24,439	357,390
Revenue anticipation notes payable	1,200,000	-	1,200,000
Tax anticipation notes payable	950,000	-	950,000
Bond anticipation notes payable	156,000	-	156,000
Due to other governments	525,523	23,529	549,052
Internal balances	(3,026,830)	3,026,830	-
Noncurrent liabilities:			
Due within one year	193,703	550,875	744,578
Due in more than one year	1,527,875	12,391,230	13,919,105
Total liabilities	1,966,963	16,250,969	18,217,932
NET ASSETS (DEFICIT)			
Investment in capital assets, net of related debt	8,185,117	(11,249,600)	(3,064,483)
Restricted for:			
Insurance	553,267	-	553,267
Capital projects	30,834	-	30,834
Debt	274,228	-	274,228
Unrestricted	309,743	(2,561,928)	(2,252,185)
Total net assets (deficit)	$ 9,353,189	$ (13,811,528)	$ (4,458,339)

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Activities
Year Ended December 31, 2011

Functions/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities	Total
Primary government:							
Governmental activities:							
General government support	$ 2,047,159	$ 285,749	$ -	$ -	$(1,761,410)	$ -	$(1,761,410)
Public safety	4,791,871	224,582	35,841	-	(4,531,448)	-	(4,531,448)
Health	166,382	-	-	-	(166,382)	-	(166,382)
Transportation	2,356,160	325,155	123,820	-	(1,907,185)	-	(1,907,185)
Economic assistance and opportunity	10,260	-	-	-	(10,260)	-	(10,260)
Culture and recreation	1,191,373	240,796	6,680	3,887	(940,010)	-	(940,010)
Home and community services	1,431,585	-	-	-	(1,431,585)	-	(1,431,585)
Interest and other fiscal charges	51,248	-	-	-	(51,248)	-	(51,248)
Total primary government	$ 12,046,038	$1,076,282	$ 166,341	$ 3,887	(10,799,528)	-	(10,799,528)
Business-type activities:							
Water fund	$ 5,183,910	$1,810,584	$ -	$ 159,421	-	(3,213,905)	(3,213,905)
General revenues:							
Property taxes					9,098,532	-	9,098,532
Other non-property taxes					1,924,558	-	1,924,558
Use of money and property					62,538	393	62,931
Sale of property and compensation for loss					161,879	-	161,879
Miscellaneous					54,461	22,116	76,577
Unrestricted State aid					324,111	-	324,111
Total general revenues					11,626,079	22,509	11,648,588
Loss on disposal of assets					(101,902)	-	(101,902)
Transfers in (out)					56,500	(56,500)	-
Change in net assets					781,149	(3,247,896)	(2,466,747)
Net assets—beginning					8,572,040	(10,563,632)	(1,991,592)
Net assets—ending					$ 9,353,189	$(13,811,528)	$(4,458,339)

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2011

	General Fund	Special Revenue: General—Part-Town Fund	Special Revenue: Highway—Part-Town Fund	Special Revenue: Fire Protection District	Special Revenue: Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 384,789	$ 384,789
Restricted cash and cash equivalents	583,059	-	-	-	186,834	206,025	975,918
Accounts receivable	42,452	13,098	2,436	-	-	-	57,986
Prepaid items	-	-	-	-	-	5,711	5,711
Loans receivable	70,000	-	-	-	-	-	70,000
Due from other governments	2,628	375,571	674,021	-	-	-	1,052,220
Due from other funds	2,998,907	57,495	375,911	289,608	-	357,323	4,079,244
Total assets	$3,697,046	$ 446,164	$1,052,368	$ 289,608	$ 186,834	$ 953,848	$6,625,868
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities:							
Accounts payable	$ 22,675	$ 4,485	$ 4,898	$ -	$ -	$ 75,683	$ 107,741
Accrued liabilities	173,581	11,286	33,598	108,359	-	-	326,824
Due to other governments	436,462	19,253	69,808	-	-	-	525,523
Due to other funds	57,495	364,013	604,627	26,279	-	-	1,052,414
Revenue anticipation notes payable	1,200,000	-	-	-	-	-	1,200,000
Tax anticipation notes payable	950,000	-	-	-	-	-	950,000
Bond anticipation notes payable	-	-	-	-	156,000	-	156,000
Total liabilities	2,840,213	399,037	712,931	134,638	156,000	75,683	4,318,502
Fund balances (deficits):							
Nonspenable:							
Prepaid items	-	-	-	-	-	5,711	5,711
Long-term receivable	70,000	-	-	-	-	-	70,000
Long-term due from other funds	2,634,448	-	375,911	-	-	16,471	3,026,830
Restricted:							
Insurance	553,267	-	-	-	-	-	553,267
Capital projects	-	-	-	-	30,834	-	30,834
Debt	29,792	-	-	-	-	306,025	335,817
Committed:							
Retirement	103,800	47,127	-	-	-	-	150,927
Assigned:							
Subsequent year's expenditures	-	-	-	74,000	-	42,500	116,500
Specific uses	-	-	-	80,970	-	507,458	588,428
Unassigned	(2,534,474)	-	(36,474)	-	-	-	(2,570,948)
Total fund balances (deficit)	856,833	47,127	339,437	154,970	30,834	878,165	2,307,366
Total liabilities and fund balances (deficit)	$3,697,046	$ 446,164	$1,052,368	$ 289,608	$ 186,834	$ 953,848	$6,625,868

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Reconciliation of the Balance Sheet—
Governmental Funds to the Statement of Net Assets (Deficit)
December 31, 2011

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

Total fund balances (deficit)—governmental funds		$ 2,307,366
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds. The cost of the assets is $8,773,528		8,773,528
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is $6,127 at year end.		(6,127)
Long-term liabilities, including bonds payable, capital leases, retirement payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds:		
Serial bonds	(300,000)	
Capital leases	(350,000)	
Retirement payable	(113,626)	
Compensated absences	(957,952)	(1,721,578)
Total net assets—governmental activities		$ 9,353,189

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Governmental Funds

Year Ended December 31, 2011

		Special Revenue					
	General Fund	General—Part-Town Fund	Highway—Part-Town Fund	Fire Protection District	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Real property taxes	$6,511,446	$ -	$ 397,667	$ 740,780	$ -	$1,344,282	$8,994,175
Real property tax items	104,357	-	-	-	-	-	104,357
Non-property tax items	-	435,000	1,489,558	-	-	-	1,924,558
Departmental income	354,112	169,234	242,905	-	-	-	766,251
Use of money and property	44,277	2,767	536	5,924	-	9,034	62,538
Licenses and permits	27,855	-	-	-	-	-	27,855
Fines and forfeitures	220,797	-	-	-	-	-	220,797
Sale of property and compensation for loss	113,814	6,477	41,588	-	-	-	161,879
Miscellaneous	54,440	-	-	-	61,379	21	115,840
State aid	316,164	57,495	116,793	-	3,887	-	494,339
Total revenues	7,747,262	670,973	2,289,047	746,704	65,266	1,353,337	12,872,589
EXPENDITURES							
Current:							
General government support	1,541,440	40,506	-	-	14,006	54	1,596,006
Public safety	2,933,655	252,362	-	680,433	-	5,086	3,871,536
Health	129,400	-	-	-	-	-	129,400
Transportation	158,150	-	1,573,305	-	-	268,138	1,999,593
Economic assistance and opportunity	7,979	-	-	-	-	-	7,979
Culture and recreation	924,526	2,250	-	-	4,456	-	931,232
Home and community services	43,311	80,357	-	-	-	989,717	1,113,385
Employee benefits	1,857,203	222,134	606,817	56,029	-	-	2,742,183
Debt service:							
Principal	-	-	-	-	-	120,000	120,000
Interest and other charges	-	-	-	-	3,671	50,150	53,821
Total expenditures	7,595,664	597,609	2,180,122	736,462	22,133	1,433,145	12,565,135
Excess (deficiency) of revenues							

(continued)

(concluded)

	General Fund	Special Revenue: General—Part-Town Fund	Special Revenue: Highway—Part-Town Fund	Special Revenue: Fire Protection District	Special Revenue: Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)							
Capital lease	190,852	-	159,148	-	-	-	350,000
Transfers in	266,500	-	10,000	-	-	317,234	593,734
Transfers out	(272,072)	(90,000)	(81,323)	-	-	(93,839)	(537,234)
Total other financing sources (uses)	185,280	(90,000)	87,825	-	-	223,395	406,500
Net change in fund balances (deficit)	336,878	(16,636)	196,750	10,242	43,133	143,587	713,954
Fund balances (deficit)—beginning	519,955	63,763	142,687	144,728	(12,299)	734,578	1,593,412
Fund balances (deficit)—ending	$ 856,833	$ 47,127	$ 339,437	$ 154,970	$ 30,834	$ 878,165	$ 2,307,366

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

Net change in fund balance—total governmental funds		$ 713,954

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, certain assets with an initial, individual cost of more than $5,000 are capitalized. This is the amount by which capital asset additions and disposals were made in 2011.

Capital asset additions	412,011	
Loss on capital asset disposals	(101,902)	310,109

The governmental funds report the repayment of bond principal, net of issuance costs, and installment purchase debt as an expenditure and the issuance of bonds as a revenue. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Payment of principal on bonds payable	120,000	
Proceeds from capital lease	(350,000)	
Net change in accrued expense	2,573	(227,427)

In the statement of activities, certain operating expenses—compensated absences (vacation & sick leave) and NYS retirement liability, 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 (essentially, the amounts actually paid). The net effect of these differences is as follows:

Compensated absences	(41,292)	
Retirement liability	25,805	(15,487)
Change in net assets of governmental activities		$ 781,149

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Real property taxes	$ 6,500,217	$ 6,500,217	$ 6,511,446	$ 11,229
Real property tax items	82,229	82,229	104,357	22,128
Departmental income	336,625	336,625	354,112	17,487
Use of money and property	48,200	48,200	44,277	(3,923)
Licenses and permits	21,775	21,775	27,855	6,080
Fines and forfeitures	150,000	150,000	220,797	70,797
Sale of property and compensation for loss	19,100	13,501	113,814	100,313
Miscellaneous	6,000	-	54,440	54,440
State aid	352,800	325,410	316,164	(9,246)
Total revenues	7,516,946	7,477,957	7,747,262	269,305
EXPENDITURES				
Current:				
General government support	1,734,102	1,772,372	1,541,440	230,932
Public safety	2,749,909	2,777,525	2,933,655	(156,130)
Health	129,400	129,400	129,400	-
Transportation	142,778	158,465	158,150	315
Economic assistance and opportunity	9,300	9,300	7,979	1,321
Culture and recreation	967,022	949,505	924,526	24,979
Home and community services	43,100	43,100	43,311	(211)
Employee benefits	2,008,960	2,008,960	1,857,203	151,757
Total expenditures	7,784,571	7,848,627	7,595,664	252,963
Excess (deficiency) of revenues over (under) expenditures	(267,625)	(370,670)	151,598	522,268
OTHER FINANCING SOURCES (USES)				
Capital lease	-	-	190,852	190,852
Transfers in	266,500	266,500	266,500	-
Transfers out	(240,275)	(240,275)	(272,072)	(31,797)
Total other financing sources (uses)	26,225	26,225	185,280	159,055
Net change in fund balances	(241,400)	(344,445)	336,878	681,323
Fund balances—beginning	519,955	519,955	519,955	-
Fund balances—ending	$ 278,555	$ 175,510	$ 856,833	$ 681,323

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK

Statement of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—General—Part-Town Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Non-property tax items	$ 410,000	$ 410,000	$ 435,000	$ 25,000
Departmental income	143,000	143,000	169,234	26,234
Use of money and property	4,000	4,000	2,767	(1,233)
Sale of property and compensation for loss	2,000	2,000	6,477	4,477
State aid	65,000	65,000	57,495	(7,505)
Total revenues	624,000	624,000	670,973	46,973
EXPENDITURES				
Current:				
General government support	39,745	39,745	40,506	(761)
Public safety	259,158	259,158	252,362	6,796
Health	7,935	7,935	-	7,935
Culture and recreation	2,250	2,250	2,250	-
Home and community services	108,709	108,709	80,357	28,352
Employee benefits	227,397	227,397	222,134	5,263
Total expenditures	645,194	645,194	597,609	47,585
Excess (deficiency) of revenues over (under) expenditures	(21,194)	(21,194)	73,364	94,558
OTHER FINANCING (USES)				
Transfers out	(90,000)	(90,000)	(90,000)	-
Total other financing (uses)	(90,000)	(90,000)	(90,000)	-
Net change in fund balances	(111,194)	(111,194)	(16,636)	94,558
Fund balances—beginning	63,763	63,763	63,763	-
Fund balances—ending	$ (47,431)	$ (47,431)	$ 47,127	$ 94,558

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—Highway Fund—Part-Town
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Real property taxes	$ 397,667	$ 397,667	$ 397,667	$ -
Non-property tax items	1,400,000	1,400,000	1,489,558	89,558
Departmental income	230,000	230,000	242,905	12,905
Use of money and property	4,000	4,000	536	(3,464)
Sale of property and compensation for loss	48,000	48,000	41,588	(6,412)
Miscellaneous	5,050	5,050	-	(5,050)
State aid	116,465	116,465	116,793	328
Total revenues	2,201,182	2,201,182	2,289,047	87,865
EXPENDITURES				
Current:				
General government support	8,944	8,944	-	8,944
Transportation	1,697,748	1,697,748	1,573,305	124,443
Employee benefits	605,167	605,167	606,817	(1,650)
Total expenditures	2,311,859	2,311,859	2,180,122	131,737
Excess (deficiency) of revenues over (under) expenditures	(110,677)	(110,677)	108,925	219,602
OTHER FINANCING SOURCES (USES)				
Capital lease	-	-	159,148	159,148
Transfers in	10,000	10,000	10,000	-
Transfers out	(81,323)	(81,323)	(81,323)	-
Total other financing sources (uses)	(71,323)	(71,323)	87,825	159,148
Net change in fund balances	(182,000)	(182,000)	196,750	378,750
Fund balances—beginning	142,687	142,687	142,687	-
Fund balances—ending	$ (39,313)	$ (39,313)	$ 339,437	$ 378,750

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK

Statement of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—Fire Protection District
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Real property taxes	$ 740,780	$ 740,780	$ 740,780	$ -
Use of money and property	3,000	3,000	5,924	2,924
Total revenues	743,780	743,780	746,704	2,924
EXPENDITURES				
Current:				
General government support	7,682	7,682	-	7,682
Public safety	750,098	750,098	680,433	69,665
Employee benefits	60,000	60,000	56,029	3,971
Total expenditures	817,780	817,780	736,462	81,318
Excess (deficiency) of revenues over (under) expenditures	(74,000)	(74,000)	10,242	84,242
Fund balances—beginning	144,728	144,728	144,728	-
Fund balances—ending	$ 70,728	$ 70,728	$ 154,970	$ 84,242

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Net Deficit—Proprietary Fund—Water Fund
December 31, 2011

ASSETS	
Current assets:	
Restricted cash	$ 1,403,600
Water rents receivable	271,091
Due from other governments	493,345
Total current assets	2,168,036
Noncurrent assets:	
Capital assets	271,405
Total noncurrent assets	271,405
Total assets	$ 2,439,441
LIABILITIES	
Current liabilities	
Accounts payble	234,066
Accrued liabilities	24,439
Due to other governments	23,529
Due to other funds	3,026,830
Bonds payable	550,000
Compensated absences	875
Total current liabilities	3,859,739
Non-current liabilities:	
Bonds payable	12,374,605
Compensated absences	16,625
Total noncurrent liabilities	12,391,230
Total liabilities	16,250,969
NET DEFICIT	
Invested in capital assets, net of related debt	(11,249,600)
Unrestricted	(2,561,928)
Total net deficit	$ (13,811,528)

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK

Statement of Revenues, Expenses and Changes in Net Deficit—
Proprietary Fund—Water Fund
Year Ended December 31, 2011

Operating revenues:	
Departmental income	$ 1,810,584
State aid	159,421
Miscellaneous	22,116
Total operating revenues	1,992,121
Operating expenses:	
Home and community services	1,450,479
Employee benefits	162,469
Total operating expenses	1,612,948
Operating income	379,173
Nonoperating revenues (expenses):	
Nonoperating capital project expenses	(3,437,559)
Interest expense	(133,403)
Interest income	393
Total nonoperating revenues (expenses)	(3,570,569)
Loss before transfers	(3,191,396)
Transfers out	(56,500)
Total net transfers	(56,500)
Change in net deficit	(3,247,896)
Total net deficit—beginning	(10,563,632)
Total net deficit—ending	$ (13,811,528)

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Cash Flows—Proprietary Fund—Water Fund
Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from operations	$ 1,862,665
Receipts from State and Federal government	350,796
Payments to suppliers	(913,989)
Payments to employees	(512,820)
Net cash provided by operating activites	786,652
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital project expenses	(3,437,559)
Interest paid on debt	(133,403)
Payments on bond anticipation notes payable	(8,350,000)
Issuance of bonds payable	11,989,605
Payments of notes payable	(4,004,273)
Principal redeemed on long-term debt	(240,000)
Net cash (used) by capital financing activities	(4,175,630)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Loans from other funds	3,026,830
Payments from other funds	(56,500)
Net cash provided by noncapital financing activities	2,970,330
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	393
Net cash provided by investing activities	393
Net decrease in cash and cash equivalents	(418,255)
Cash and cash equivalents—beginning	1,821,855
Cash and cash equivalents—ending	$ 1,403,600

(continued)

TOWN OF EVANS, NEW YORK
Statement of Cash Flows—Proprietary Fund—Water Fund
Year Ended December 31, 2011

(concluded)

Reconciliation of operating income to net cash provided in operating activities:	
Operating income	$ 379,173
Adjustments to reconcile operating income to net cash used in operations:	
Decrease in water rents receivable	6,436
Decrease in prepaid items	9,248
Decrease in due from other governments	191,375
Increase in accounts payable	174,340
Increase in accrued liabilities	801
Increase in due to other governments	23,529
Increase in compensated absences	1,750
Net cash provided by operating activities	$ 786,652

The notes to the financial statements are an integral part of this statement.

TOWN OF EVANS, NEW YORK
Statement of Fiduciary Net Assets—Fiduciary Fund
December 31, 2011

ASSETS	
Cash	$ 66,430
LOSAP assets	1,950,303
Total assets	2,016,733
LIABILITIES AND NET ASSETS	
Amounts held for other parties	66,430
Amounts held for LOSAP	1,950,303
Total liabilities	2,016,733
NET ASSETS	$ -

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Evans, New York (the "Town") have been prepared in conformity with the accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units, except that the Town does not report construction-in-progress, infrastructure assets, depreciate any of its assets or recognize its post-employment benefits liability. 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 Town's accounting policies are described below.

Reporting Entity

The Town is a unit of local government created by the State of New York. The Town operates under provisions of New York State law and various local laws. The three-member Town Board is the legislative body responsible for overall operations. The Supervisor serves as both Chief Executive Officer and Chief Fiscal Officer.

Independently elected officials of the Town include:

Supervisor	Town Clerk
Councilmembers (2)	Receiver of Taxes
Town Justices (2)	Superintendent of Highways

The financial reporting entity is in accordance with Government Accounting Standards No. 14, *The Financial Reporting Entity.*

The Town provides services and facilities in the area of police, highway, sanitation, parks and recreation, water service and general administration.

The Town's financial statements include those entities for which the Town has clear oversight responsibility. This responsibility is determined through a review of such factors as the selecting of governing boards, financial interdependency and the ability to influence management and operations on a continuing basis.

Units of the local government which operate within the boundaries of the Town are the County of Erie and the Village of Angola. In addition, there is the North Evans Fire District as well as three school districts that provide public education within the Town. None of these entities are included in the financial statements as they are governed independently elected bodies and are not influenced by the Town.

Government-wide and Fund Financial Statements. The government-wide financial statements (i.e. statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation. 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 when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when the underlying exchange transaction has occurred and the resources are available. For this purpose, the Town considers revenues to be available if the Town has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. The Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes, sales tax, sewer charges, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. There were no significant revenues considered as not subject to accrual.

The Town considers the following governmental funds as major funds:

- *General Fund*—This is the principal operating fund of the Town and includes all operations not required to be recorded in other funds.

- *General—Part-Town Fund*—This fund is used to account for selected service which, by New York State Statute cannot be charged to residents of the Village located within the Town.

- *Highway—Part-Town Fund*—This fund is used to record all revenues and expenditures related to road maintenance and construction throughout the Town.

- *Fire Protection District*—This fund is used to account for the revenues and expenditures related to fire protection services provided within the Town.

- *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the Town reports the following fund types:

Proprietary Fund

- *Enterprise Fund—Water Fund*—The Water Fund is used to account for the Town's metered water services and the expenses related to providing those services.

Fiduciary Fund

- *Agency Fund*—The agency fund is used to account for assets held by the Town as an agent for individuals, other governments, or other funds. The agency fund is custodial in nature and does not involve measurement of results of operations. The agency fund accounts, such as payroll withholdings, are reported as liabilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues are those that cannot be associated directly with program activities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund, the enterprise fund, are from charges for services and sales provided. Operating expenses for the enterprise fund include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets—Annual budgets for all governmental funds, except the Capital Projects Fund and Community Development Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances outstanding at year-end are accounted for on the lapsing method, which reappropriated encumbrances in the subsequent years' budget. Accordingly, the Town reserves fund balance for all encumbrances it intends to honor in the subsequent period.

The Capital Projects Fund and the Community Development Fund appropriations are not included in the Town's annual budget. Instead appropriations are approved through a Town Board resolution at the project/grant's inception and lapse upon termination/completion of the project/grant.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary control in all governmental funds.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and have a maturity date within 90 days of the original date of purchase.

Restricted Cash and Cash Equivalents—Unspent proceeds of bond anticipations notes are reported as restricted cash and cash equivalents within the Capital Projects Fund. The Water Fund cash is reported as restricted cash and cash equivalents.

Investments—The Town had no investments at December 31, 2011, however, when the Town does have investments in its Town policy to record them at quoted market value.

Prepaid Items—Certain payments related to interest payments to the New York State Facilities Corporation reflect costs applicable to future periods and are recorded as prepaid items.

Loans Receivable—In 2004, the Town authorized a long-term borrowing between its General Fund and its Water District No. 5. The amount owed from Water District No. 5 is recorded within the General Fund as loans receivable. The long-term portion of the receivable has been reserved.

Compensated Absences—The Town labor agreements and Town Board rules and regulations provide for sick leave, vacations, and other miscellaneous paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

Estimated sick leave and compensatory time accumulated by governmental fund type employees has been recorded. Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of sick leave and compensatory time when such payments become due.

Pensions—Nearly all Town employees are members of various New York State retirement systems. The Town is invoiced annually by the systems for its share of the cost.

Capital Assets—Capital assets, which include property, buildings and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years, excluding those assets mentioned below. Capital assets recorded are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are incurred.

Currently, the Town does not record its construction-in-progress or general infrastructure assets. Additionally, Town does not record the associated depreciation on capital assets.

Postemployment Benefits—In addition to providing pension benefits, the Town provides health insurance coverage and/or payments for fractional values of unused sick leave for certain retired employees at the time of retirement as discussed in an ensuing note.

Service Awards—The Town has adopted a Service Award Program for firefighters that serve on a volunteer basis. The Program is administered by an outside agency, with the Town as trustee.

Estimates—The preparation of the financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

Future Impacts of Accounting Pronouncements—The Town has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements;* No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; No. 65, *Items Previously Reported as Assets and Liabilities*; No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* , effective for the year ending December 31, 2013; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* effective for the year ending December 31, 2014. The Town is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63, 64, 65, 66, 67 and 68 will have on its financial position and results of operations when such statements are adopted.

The Town adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*, which had no material impact to the Town.

Additionally, during the year ended December 31, 2011, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was implemented. The Town has evaluated, classified and reported amounts in the appropriate fund balance classifications by applying accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. These policies have been disclosed in Note 15.

2. LEGAL COMPLIANCE—BUDGETS

Budgets and Budgetary Accounting—The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to September 30, the Town Supervisor files a "tentative" budget with the Town Clerk for the following fiscal year to commence on January 1. This budget, which includes appropriations and estimated revenues, is then presented to the full Town Board by October 5th.
- The full Town Board reviews the tentative budget and may adjust before approving a "preliminary" budget and calling for a public hearing, which is generally held in October.
- Following the public hearing, revisions may again be made by the Town Board before filing an adopted budget with Erie County by November 20th.
- Formal annual budgetary accounts are employed as a management control device for the General and all Special Revenue Funds.
- During the fiscal year, the Town Board can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for the departmental budgetary control. All budget amendments and budget transfers require Town Board approval.
- Annual budgets for governmental funds, except the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances outstanding at year-end are accounted for on the lapsing method, which reappropriated encumbrances in the subsequent years' budget. Accordingly, the Town reserves fund balance for all encumbrances it intends to honor in the subsequent period.
- The Capital Projects Fund appropriations are not included in the Town's annual budget. Instead appropriations are approved through a Town Board resolution at the project/grant's inception and lapse upon termination/completion of the project/grant.
- Total expenditures for each object classification within a department may not legally exceed the total appropriations for that object classification.

During the year ended December 31, 2011, certain items exceeded the adjusted budget, these items were as follows:

- General Fund public safety expenditures were $156,130 more than the adjusted budget due to higher than predicted gasoline expenditures coupled by salary expenditures.
- General Fund home and community services exceeded the adjusted budget by $211 because of unexpected salary expenditures.
- General Fund transfers out were $31,797 over the adjusted budget due to unbudgeted debt expenditures related to capital lease.
- General Part-Town Fund general government support expenditures were $761 higher than the adjusted budget due to unforeseen professional services expenditures.
- Highway Fund Part-Town Fund employee benefits were $1,650 over the adjusted budget due to worker's compensation and hospital and medical expenditures that were higher than expected.

3. CASH AND CASH EQUIVALENTS

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Supervisor 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. The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal government.

Cash at year-end consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Fund	Balance
Petty cash (uncollateralized)	$ 800	$ -	$ -	$ 800
Deposits	1,359,907	1,403,600	66,430	2,829,937
Total	$ 1,360,707	$ 1,403,600	$ 66,430	$ 2,830,737

Cash and cash equivalents	$ 384,789
Restricted cash and cash equivalents	2,379,518
Cash held in Agency Fund	66,430
	$ 2,830,737

Deposits—All deposits are carried at fair value.

	Bank Balance	Carrying Amount
Insured (FDIC)	$ 561,588	$ 561,588
Uninsured:		
Collateral held by bank's agent in the Town's name	3,202,083	2,268,349
Total	$ 3,763,671	$ 2,829,937

Custodial Credit Risk—In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. For investments, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.

Restricted Cash and Cash Equivalents—At December 31, 2011, the Town reported $975,918 and $1,403,600 of restricted cash and cash equivalents within its governmental activities and business-type activities, respectively, for unspent proceeds of debt and to support restricted fund balances.

4. PROPERTY TAX

The Erie County Legislature prepares the levy in late December of each year and jointly bills the Town levy and Erie County real property taxes. Property taxes are levied and become a lien as of January 1 based on assessed property values as of that date.

Tax payments are due January 1 to February 15 without penalty; February 16 to 28 a 1.5% penalty; March 1 to 15 a 3% penalty; March 16 to 31 a 4.5% penalty; April 1 to 17 a 6% penalty; April 18 to May 1 a 7.5% penalty; and 1.5% added each month thereafter.

The tax roll is returned to the Erie County Commissioner of Finance after May 1 at which time all unpaid taxes and penalties are payable to that office. The Town retains their full tax levies and all unpaid items are returned to the County. Thus, the Town is assured of receiving 100% of its tax levy. The County enforces all liens.

The Town also bills and collects taxes for various school districts within Town limits. Collections of the school district taxes and remittances of them are accounted for by the Receiver of Taxes, independent of Town operations.

5. RECEIVABLES

Major revenues accrued by the Town at December 31, 2011:

Accounts Receivable—represents franchise fees receivable and amounts due from other Town departments (e.g. Town Justice, Town Clerk and Receiver of Taxes, etc.) who are acting as intermediary collecting agents, collecting various fines, fees and other charges which are remitted to the Town in accordance with State statute. Other miscellaneous items are also included. Amounts due to the Town at December 31, 2011 are:

Governmental activities:		
General Fund:		
Health insurance	$ 1,083	
Town Justice	18,929	
Town Clerk	4,316	
Other	18,124	$ 42,452
General—Part Town Fund:		
Health insurance	724	
Town Clerk	6,502	
Other	5,872	13,098
Highway—Part Town Fund:		
Health insurance	637	
Other	1,799	2,436
Total governmental activities		$ 57,986
Business-type activities:		
Water Fund:		
Water rents		$ 271,091

Due from Other Governments—represents amounts due from other units of government, such as Federal, New York State, County of Erie or other local governments. Amounts due the Town at December 31, 2011 are:

Governmental activities:		
General Fund:		
Shared services grant	$ 373	
Due from Erie County	895	
Other	1,360	$ 2,628
General- Part Town Fund:		
Cable franchise fees	175,000	
Due from Erie County	200,571	375,571
Highway- Part Town Fund:		
Sales tax		674,021
Total governmental activities		$ 1,052,220
Business-type activities:		
Water Fund		
Due from New York State	$ 159,762	
Delinquent water charges	333,583	$ 493,345

Loans Receivable—Loans receivable within the General Fund consist of loans which were made by the Town through authorization of a long-term borrowing between its General Fund and its Water District No. 5. The long-term borrowing of $100,000, occurred during the year ended December 31, 2006, the loan is for a 20-year term and carries an average interest rate of 3.5%. The balance outstanding at December 31, 2011 is $70,000 of which $5,000 is considered current.

6. DUE TO/FROM OTHER FUNDS AND INTERFUND TRANSFERS

A summary of the Town's interfund loans at December 31, 2011 follows:

	Due to other funds:					
	Governmental activities:				Business-type activities:	
	General Fund	General—Part-Town Fund	Highway—Part-Town Fund	Fire Protection Fund	Water Enterprise Fund	Total
Due from other funds:						
General Fund	$ -	$ 149,440	$ 215,019	$ -	$ 2,634,448	$ 2,998,907
General - Part-Town	57,495		-	-	-	57,495
Highway - Part-Town	-	-	-	-	375,911	375,911
Fire Protection	-	-	289,608	-	-	289,608
Highway - Town-Wide	-	134,406	-	26,279	16,471	177,156
Street Lighting	-	80,167	-	-	-	80,167
Debt Service Fund	-	-	100,000	-	-	100,000
Total	$ 57,495	$ 364,013	$ 604,627	$ 26,279	$ 3,026,830	$ 4,079,244

The interfund loans primarily represent amounts provided to certain funds which had cash overdrafts at December 31, 2011. All interfunds are expected to be liquidated within the subsequent year.

Transfers are used primarily to move various fund revenues that the Town must account for in other funds in accordance with budgetary authorizations. The Town made the following transfers during 2011:

	Transfers in:			
	Governmental activities			
	General Fund	Highway—Part-Town Fund	Other Governmental Funds	Total
Transfers out:				
Governmental activities:				
General Fund	$ 95,000	$ -	$ 177,072	$ 272,072
General—Part-Town Fund	90,000	-	-	90,000
Highway—Part-Town Fund	-	-	81,323	81,323
Other governmental funds	25,000	10,000	58,839	93,839
Total governmental activities	$ 210,000	$ 10,000	$ 317,234	$ 537,234
Business-type activities				
Water Fund	$ 56,500	$ -	$ -	$ 56,500
Total	$ 266,500	$ 10,000	$ 317,234	$ 593,734

7. CAPITAL ASSETS

The Town has not recorded construction-in-progress and general infrastructure assets or the related depreciation expense and accumulated depreciation in its governmental and in its business-type activities. Additionally, the Town has not recorded depreciation on any depreciable assets. Other capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Governmental activities:				
Land	$ 385,200	$ -	$ -	$ 385,200
Buildings	4,053,725	-	-	4,053,725
Improvements other than buildings	270,870	-	-	270,870
Machinery and equipment	3,753,624	412,011	101,902	4,063,733
Total governmental activities	8,463,419	412,011	101,902	8,773,528
Business-type activities:				
Improvements other than buildings	24,597	-	-	24,597
Machinery and equipment	246,808	-	-	246,808
Total business-type activities	271,405	-	-	271,405
Total government-wide	$ 8,734,824	$ 412,011	$ 101,902	$ 9,044,933

During the year ended December 31, 2011, the Town expended $3,437,559 on infrastructure type assets within its business-type activity relating to a water project, since it does not capitalize its infrastructure assets, these amounts have been recorded as nonoperating capital project expenses. The Town estimates that it has expended approximately $11,950,000 on this project since its inception in 2007.

8. SHORT-TERM DEBT

Short-term debt of the Town represents bond anticipation notes, tax anticipation notes and revenue anticipation notes. These notes are reported as a fund liability in the fund receiving the proceeds in accordance with the criteria set forth in Accounting Standards Codification 405, *Liabilities,* because legal steps have not been taken to refinance the notes on a long-term basis.

The following is a summary of changes in the Town's short-term debt for the year ended December 31, 2011:

	Interest Rate	Balance 1/1/2011	Additions	Payments	Balance 12/31/2011
Revenue anticipation notes:					
Governmental funds	1.40%	$ -	$ 1,200,000	$ -	1,200,000
Tax anticipation notes:					
Governmental funds	2.00%	-	950,000	-	950,000
Bond anticipation notes:					
Governmental funds:					
Various equipment/improvements	1.42%	258,527	-	(258,527)	-
Various equipment/improvements	1.47%	-	156,000	-	156,000
Proprietary fund - Water fund:					
Water system improvements	1.25%	5,350,000	-	(5,350,000)	-
Water system improvements	1.50%	3,000,000	-	(3,000,000)	-
Total short-term debt		$ 8,608,527	$ 2,306,000	$ (8,608,527)	$ 2,306,000

9. LONG-TERM DEBT

Summary of Changes in Serial Bonds and Loans Payable—The following is a summary of changes in serial bonds and loans payable for the year ended December 31, 2011:

Description	Issue/ Maturity	Interest Rate	Balance 1/1/2011	Additions	Payments	Balance 12/31/2011
Governmental activities						
General Fund:						
Municipal building	1991/2013	6.80%	$ 300,000	$ -	$ (100,000)	$ 200,000
Water District Fund:						
Derby WL	1991/2013	6.80%	45,000	-	(15,000)	30,000
Improvement District #5	2004/2024	3.50%	75,000	-	(5,000)	70,000
Total governmental activities			420,000	-	(120,000)	300,000
Business-type activities:						
Water Fund:						
ICW Line	1991/2013	6.80%	330,000	-	(110,000)	220,000
Water system improvements	1999/2014	4.38%	380,000	-	(95,000)	285,000
Waterline looping	2003/2023	2.25%	465,000	-	(35,000)	430,000
EFC Series 2011C	2011/2041	3.7-4.5%	-	11,989,605	-	11,989,605
Total business-type activities			1,175,000	11,989,605	(240,000)	12,924,605
Total government-wide			$ 1,595,000	$ 11,989,605	$ (360,000)	$ 13,224,605

Issuance of Debt – On June 1, 2011 the Town entered into a long-term project finance agreement with the New York State Environmental Facilities Corporation. As part of the agreement, the Town is responsible for the repayment of $11,989,605 of the Corporation Bonds which were issued to finance the Town's water project. The bonds are comprised of an SRF equity component and an SRF bond proceeds component which carry an average coupon rate of 3.7%-4.5%, respectively, and mature on May 1, 2041.

Notes Payable—This amount represents proceeds from an Environmental Facilities Corporation ("EFC") loan agreement the business-type activity entered into on September 25, 2008. The EFC authorized a total loan of $4,155,966. The liability is recognized as the EFC authorizes disbursement of the loan. These notes payable were paid during 2011 with the additional proceeds received from the EFC Series 2011C bond.

A summary of the changes in notes payable for the year ended December 31, 2011 follows:

	Balance 1/1/2011	Additions	Payments	Balance 12/31/2011
Business-type activities	$ 4,004,273	$ -	$ (4,004,273)	$ -

Compensated Absences—As explained in Note 1, the Town records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at December 31, 2011, for governmental activities is $957,952. Management estimates that $47,898 is due within one year. A non-current liability totaling $910,054 has also been recorded. Additionally, the Town records compensated absences in its business-type activity. The value recorded in the government-wide financial statements at December 31, 2011, for business-type activities is $17,500. Management estimates that $875 is due within one year. A non-current liability totaling $16,625 has also been recorded. Since the payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

A summary of the changes in compensated absences for the year ended December 31, 2011 follows:

	Balance 1/1/2011	Additions	Payments	Balance 12/31/2011
Governmental activities	$ 916,660	$ 235,642	$(194,350)	$ 957,952
Business-type activities	15,750	23,093	(21,343)	17,500
Total government-wide	$ 932,410	$ 258,735	$(215,693)	$ 975,452

Capital Leases—During 2011 the Town entered into a long-term capital lease for certain equipment and machinery. The present value of the lease at December 30, 2011 is $350,000 which has been recorded between the Town's General Fund and Highway Part-Town Fund. Payments on the lease will commence January 1, 2012 and are due yearly thereafter. Total payments range between $66,162 and $73,946 annually. The interest rate is 2.82% per annum. The obligation under the lease can be summarized as follows:

Year ended December 31,	Governmental Activities
2012	$ 76,032
2013	76,032
2014	76,032
2015	76,032
2016	76,032
Total minimum lease payments	380,159
Less: amount representing interest	(30,159)
Present value of minimum lease payments	$ 350,000

The Town does not record the associated depreciation on capital assets. The assets acquired through the capital lease are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	$ 288,411

Retirement Payable—This amount represents previous payments to the New York State Retirement System that the Town elected to amortize over ten year period. The final payment is due in 2016.

A summary of the changes in retirement payable for the year ended December 31, 2011 follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Governmental activities	$ 139,431	$ -	$ (25,805)	$ 113,626

The following is a maturity schedule of the Town's governmental activities indebtedness:

	Serial Bonds/ Loans Payable	Compensated Absences	Retirement Payable	Total
2012	$ 120,000	$ 47,898	$ 25,805	$ 193,703
2013	120,000	-	25,805	145,805
2014	5,000	-	25,805	30,805
2015	5,000	-	25,805	30,805
2016	5,000	-	10,406	15,406
2017-2021	25,000	-	-	25,000
2022-2025	20,000	-	-	20,000
Various	-	910,054	-	910,054
Total	$ 300,000	$ 957,952	$ 113,626	$ 1,371,578

The following is a maturity schedule of the Town's business-type activity indebtedness:

	Serial Bonds	Compensated Absences	Total
2012	$ 550,000	$ 874	$ 550,874
2013	549,605	-	549,605
2014	440,000	-	440,000
2015	350,000	-	350,000
2016	350,000	-	350,000
2017-2021	1,805,000	-	1,805,000
2022-2026	1,840,000	-	1,840,000
2027-2031	1,920,000	-	1,920,000
2032-2036	2,240,000	-	2,240,000
2037 and beyond	2,880,000	-	2,880,000
Various	-	16,626	16,626
Total	$ 12,924,605	$ 17,500	$ 12,942,105

The interest requirement for the Town's outstanding serial bonds and loans payable is as follows:

	Governmental Activities	Business-type Activities	Total
2012	$ 36,088	$ 452,261	$ 488,349
2013	16,338	450,060	466,398
2014	4,237	446,962	451,199
2015	1,925	442,791	444,716
2016	1,750	437,653	439,403
2017-2021	6,125	2,071,456	2,077,581
2022-2026	1,750	1,777,557	1,779,307
2027-2031	-	1,399,784	1,399,784
2032-2036	-	953,405	953,405
2037 and beyond	-	355,775	355,775
Total	$ 68,213	$ 8,787,703	$ 8,855,916

10. PENSION PLANS

Plan Description—The Town participates in the New York and Local Employees' Retirement System ("ERS"), the New York State and Local Police and Fire Retirement System ("PFRS") and the Public Employees' Group Life Insurance Plan ("Systems"). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability 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"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as a sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for custody and control of their funds. 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, 110 State Street, Albany, NY 12244.

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 for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for their entire length of service. Under the authority of NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the New York State Local Retirement fiscal year ending March 31.

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

	ERS	PFRS
2011	$ 341,303	$ 390,767
2010	354,235	385,596
2009	220,930	342,094

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2011 would be based on the pension value as of March 31, 2010).

Legislation requires participating employers to make payments on a current basis. The Town's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

11. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the Town provides health insurance coverage for retired police and elected officials as well as their dependents. These employees become eligible for these benefits if they reach normal retirement age while working for the Town and have served the Town for 20 years or more. The Town is obligated to pay such benefits as a result of union contracts and Town Board rules and regulations for nonunion employees. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Town recognizes the cost of providing benefits by recording its share of insurance premiums as expenditure in the year paid. During 2011, $343,128 was paid on behalf of 28 retirees and recorded as an expenditure in the General and General—Part-Town Funds.

Town employees are entitled to accrue a maximum of 150-180 working days of sick leave. Except for the police officers and police dispatchers, upon retirement, if the individual is terminated during the year, they are not entitled to receive payment for unused accrued sick leave.

Depending on the years of service, Town employees are entitled to between one and five weeks of annual vacation, no part of which can be used beyond the expiration of the anniversary date. If the individual is terminated by the Town during the year, they are entitled to receive payment of unused vacation time for that year.

12. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP)

The Town established a defined benefit Length of Service Awards Program (the "Program") for the active volunteer firefighters of Evans Center and Lake Erie Beach Volunteer Fire Companies. The Program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters. The Town is the sponsor of the Program.

Program Description—

Participation, vesting and service credit—Active volunteer firefighters who have reached the age of eighteen and who have completed one year of firefighting service are eligible to participate in the Program. The Program's entitlement age is age sixty. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the Program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values.

Benefits—A participant's benefit under the Program is the actuarial equivalent of a monthly payment for life equal to twenty dollars multiplied by the person's total number of years of firefighting service. The number of years of firefighting service used to compute the benefit cannot exceed forty. Except in the case disability or death, benefits are payable when a participant reaches entitlement age. The Program provides statutorily mandated death and disability benefits.

Fiduciary Investment and Control—Service credit is determined by the governing board of the sponsor, based on information certified to the governing board by each fire company having members who participate in the Program. Each fire company must maintain all required records on forms prescribed by the governing board. The governing board of the sponsor has retained and designated Penflex, Inc. to assist in the administration of the program.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program.

Authority to invest program assets is vested in the Investment Committee. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule.

As of December 31, 2011, the most recent date actuary information is available, the funded ratio is 93.92%. The Town had assets December 31, 2011 of $1,950,303 and an actuarial present value of accrued benefits of $1,835,888. The Town accounts for Amounts Held for LOSAP within its Agency Fund. At December 31, 2011, the Program had $1,950,303 of assets available for benefits, as follows:

Cash	$ 83,805
U.S. equities	74,502
International equities	77,489
Fixed income	1,135,827
Mixed assets	578,680
	$ 1,950,303

During 2011, the Town contributed $128,189 to the program, all of which was applicable to activity from the year ended December 31, 2009. Administration fees paid by the Town totaled $3,668.

13. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. The following is a summary of the Agency Fund for the year ended December 31, 2011:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
ASSETS				
Cash	$ 58,685	$ 6,279,211	$ (6,271,466)	$ 66,430
LOSAP Assets	1,857,940	258,827	(166,464)	1,950,303
Total assets	1,916,625	6,538,038	(6,437,930)	2,016,733
LIABILITIES				
Amounts held for other parties	$ 58,685	$ 6,279,211	$ (6,271,466)	66,430
Amounts held for LOSAP	1,857,940	258,827	(166,464)	1,950,303
Total liabilities	1,916,625	6,538,038	(6,437,930)	2,016,733

14. LABOR RELATIONS

Town employees are represented by five bargaining units with the balance governed by Town Board rules and regulations. The International Brotherhood of Electrical Workers, Local 41, has a contract settled through December 31, 2012. The Service Employees International Union, Local 200 United, and Department of Public Works Employees had a contract settled through December 31, 2010. The Town of Evans Communication Association and the Town of Evans Police Benevolent Association have memorandums of understanding through December 31, 2011. Lastly, the Civil Service Employees Association, Local 1000 AFSCME, has a contract settled through December 31, 2012.

15. NET ASSETS AND FUND BALANCE

The government wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- ***Investment in Capital Assets, Net of Related Debt***—This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

	Governmental Activities	Business-type Activities
Capital assets	$ 8,773,528	$ 271,405
Less related debt issued and used for capital assets:		
Bond anticipation notes	(156,000)	-
Serial bonds	(300,000)	(935,000)
Capital lease	(350,000)	-
EFC bonds	-	(11,989,605)
Add unspent BAN proceeds	156,000	1,403,600
Add unspent lease proceeds	61,589	-
	(588,411)	(11,521,005)
Investment in capital assets, net of related debt	$ 8,185,117	$ (11,249,600)

- ***Restricted Net Assets***—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Net assets of $553,267, $30,834 and $274,228 are considered restricted for insurance, capital projects and debt, respectively, at December 31, 2011.

- ***Unrestricted Net Assets***—This category represents net assets of the Town not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the Town at December 31, 2011 includes:

- ***Prepaid items***—Represents funds, $5,711, for prepaid expenditures.

- ***Long-term receivable***—Represents funds, $70,000, related to the long-term receivable.

- ***Long-term due from other funds***—Represents funds, $3,026,830, reported within the Town's General Fund, Highway—Part-Town Fund and Highway—Townwide Fund as receivable from the Town's business-type activity.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance maintained by the Town at December 31, 2011 includes:

- ***Restricted for insurance***—represents reserve established to be used to pay claims, actions or judgments against the Town that results from personal injuries or property damage; to pay self-insured workers' compensation claims and expenses in excess of claims and expenses paid from current appropriations; and to pay non-insured unemployment losses.

- ***Restricted for debt service***—represents funds to be used to fund future debt service payments.

- ***Restricted for capital projects***—represents funds to be used to fund future capital projects.

In the fund financial statements, committed fund balances are subject to a purpose constraint imposed by a formal action of the Town's highest level of decision-making authority, or by their designated body or official. As of December 31, 2011, the Town has committed the following:

- ***Committed to retirement***—represents funds to be used to pay expenditures related to the retirement system.

In the fund financial statements, assigned amounts are subject to a purpose constraint that represents an intended use establish by the Town Board, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2011, the following balances were considered to be assigned.

- ***Assigned to subsequent year's expenditures***—Represents available fund balance being appropriated to meet appropriated fund balance according to the 2012 adopted budget.

- ***Assigned to specific uses***—Represents funds that are assigned for a specific purpose.

The Town would expend fund balances in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

16. JOINT VENTURE

The following activity is undertaken jointly with other municipalities. This activity is excluded from the financial statements of all participating municipalities.

Inter-Community Water-Line Agreement—The Town of Evans and Hanover, the Village of Silver Creek and the Seneca Nation of Indians jointly own the Inter-Community Water Transmission line. The venture operates under the terms of an agreement finalized in April 1990, pursuant to Article 5G of the New York State General Municipal Law. The villages of Angola and Farnham were added in a revised agreement in 1992 and 1993. Significant provisions of the agreement follow:

- Each party to the agreement shall have one representative on the Inter-Community Water Board. Each municipality's representative must be a member of the municipality's government body. The Seneca Nation's board representative may not be a member of the governing body. The Board shall elect, among themselves a chairman, vice chairman, secretary and treasurer who must be the fiscal officer of the member municipality.

- Capital costs and maintenance for each member are shared in the following ratios:

Angola	8.35%	Evans	43.32%
Farnham	1.19%	Seneca Nation	16.31%
Hanover	8.16%	Silver Creek	22.67%

The Seneca Nation of Indians share, totaling 16.31%, represents the portion of construction costs to be met by Federal funding.

17. DEFICIT

The Town's business-type activity, the Water Fund, reported a deficit at December 31, 2011. Management anticipates that this deficit will be remedied through the eventual transfer of the net assets of the Water Fund to the Erie County Water Authority. Negotiations relating to this transfer are currently in progress. The Water Fund's liabilities to other funds will be remedied through future surcharges which will be added to water usage billings.

18. CONTINGENCIES

Assessments—The Town is a defendant in various litigation under Article 7 of the Real Property Tax Law of the State of New York to review tax assessments. While the Town vigorously defends assessments, the likelihood of success is on a case-by-case basis, and is dependent upon many factors including market values and appraised amounts. No potential amount or potential range of loss is determinable. However, management believes that level of such potential loss, if any, would be immaterial and no provisions have been made within the financial statements.

Grants—In the normal course of operations, the Town receives grant funds from various Federal and State agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds. While the amount of any expenditure that may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Judgments and Claims— The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Town purchases insurance coverage for workers' compensation, risk related to general liability and other risks of loss. There have been no significant reductions in the levels of commercial insurance from the prior year, nor have there been any settlements which exceeded insurance coverage for each of the past three fiscal years. The Town currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss and deductible can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Current liabilities are accrued within the General Fund. During the year ended December 31, 2011, the Town paid $30,911 for judgments and claims and there was no liability recorded within the General Fund for claim and judgments at December 31, 2011.

Other—The Town is involved in litigation arising in the ordinary course of its operations. The Town believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Town's financial condition or results of operations.

19. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2011 that require consideration as to adjustments to or disclosures in the financial statements other than those items discussed below:

- On October 21, 2012 the Town resolved to issue $1,100,000 of Revenue Anticipation Notes ("RANs"). The RANs will be issued in anticipation of revenues in the form of water rates and charges and distributions of the county sales and compensating use tax.

- On November 7, 2012 the Town resolved to issue $355,000 of Serial Bonds to finance the cost of improvements to the facilities of Town of Evans Water Districts, consisting of the installation of backflow prevention facilities and equipment.

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Combining Financial Statements of Nonmajor Governmental Funds

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TOWN OF EVANS, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
December 31, 2011

	Highway—Townwide Fund	Street Lighting District	Derby Hydrants Fund	Garbage District	Water District	Debt Service Fund	Other Governmental Funds
ASSETS							
Cash	$ -	$ 126,382	$ 4,504	$ 113,850	$ 140,053	$ -	$ 384,789
Restricted cash	-	-	-	-	-	206,025	206,025
Prepaid items	-	-	-	-	-	5,711	5,711
Due from other funds	177,156	80,167	-	-	-	100,000	357,323
Total assets	$ 177,156	$ 206,549	$ 4,504	$ 113,850	$ 140,053	$ 311,736	$ 953,848
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ -	$ -	$ -	$ 75,683	$ -	$ -	$ 75,683
Total liabilities	-	-	-	75,683	-	-	75,683
Fund Balances:							
Nonspendable:							
Prepaid items	-	-	-	-	-	5,711	5,711
Long-term due from other funds	16,471	-	-	-	-	-	16,471
Restricted:							
Debt	-	-	-	-	-	306,025	306,025
Assigned							
Subsequent year's expenditures	42,500	-	-	-	-	-	42,500
Specific use	118,185	206,549	4,504	38,167	140,053	-	507,458
Total fund balances	177,156	206,549	4,504	38,167	140,053	311,736	878,165
Total liabilities and fund balances	$ 177,156	$ 206,549	$ 4,504	$ 113,850	$ 140,053	$ 311,736	$ 953,848

TOWN OF EVANS, NEW YORK

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended December 31, 2011

	Highway—Townwide Fund	Street Lighting District	Derby Hydrants Fund	Garbage District	Water District	Debt Service Fund	Other Governmental Funds
REVENUES							
Real property taxes	$ -	$ 304,603	$ 4,982	$ 975,128	$ 59,569	$ -	$ 1,344,282
Use of money and property	2,095	3,640	89	3,210	-	-	9,034
Miscellaneous	-	-	-	21	-	-	21
Total revenues	2,095	308,243	5,071	978,359	59,569	-	1,353,337
EXPENDITURES							
Current:							
General government support	-	-	-	-	54	-	54
Public safety	-	-	5,086	-	-	-	5,086
Transportation	18,270	249,868	-	-	-	-	268,138
Home and community services	-	-	-	989,717	-	-	989,717
Debt service:							
Principal	-	-	-	-	-	120,000	120,000
Interest	-	-	-	-	-	50,150	50,150
Total expenditures	18,270	249,868	5,086	989,717	54	170,150	1,433,145
Excess (deficiency) of revenues over (under) expenditures	(16,175)	58,375	(15)	(11,358)	59,515	(170,150)	(79,808)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	317,234	317,234
Transfers out	-	-	-	(35,000)	(58,839)	-	(93,839)
Total other financing sources (uses)	-	-	-	(35,000)	(58,839)	317,234	223,395
Net change in fund balances	(16,175)	58,375	(15)	(46,358)	676	147,084	143,587
Fund balances—beginning	193,331	148,174	4,519	84,525	139,377	164,652	734,578
Fund balances—ending	$ 177,156	$ 206,549	$ 4,504	$ 38,167	$ 140,053	$ 311,736	$ 878,165

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Certified Public Accountants

INDEPENDENT AUDITORS' 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*

Honorable Town Board
Town of Evans, New York:

We have audited the basic financial statements of Town of Evans, New York (the "Town"), as of and for the year ended December 31, 2011, and have issued our report thereon dated November 21, 2012 (which opinion is adverse on the governmental and business activities due to omission of construction-in-progress, general infrastructure assets, the related depreciation expense and accumulated depreciation in its governmental and in its business-type activities. Additionally, the Town has not recorded depreciation expense or accumulated depreciation on any other depreciable asset. Further, management has not determined the impact of the Town's postemployment benefits other than pensions ("OPEB") and, accordingly, has not recorded an OPEB liability or the related expense. The report also contains an explanatory paragraph regarding deficit net assets in the Town's business-type activity—Water Fund). 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's the 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 was not designed to 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 all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 as items 2011-1 through 2011-5 to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 2011-6 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2011-7.

We noted certain other matters that we reported to management of the Town in a separate letter dated November 21, 2012.

This report is intended solely for the information and use of the Town Board and management and is not intended to be and should not be used by anyone other than these specified parties.

[illegible] & M[illegible] LLP

November 21, 2012

We consider the deficiencies presented below to be material weaknesses in internal control.

Finding 2011-1—Cash

While performing our audit, we noted several items that comprise a material weakness in internal controls surrounding the cash functions at the Town:

Interfund loans

Condition—The Town's General—Part-Town Fund, Fire Protection Fund and Water Enterprise Fund fell into a deficit cash position during the year ended December 31, 2011. As a result, these funds had to borrow money from other funds to sustain operations. Additionally, interfunds that were established in the prior year due to cash deficits remain outstanding in the current year.

Criteria—The Town should monitor the cash flow within the funds. Additionally, as interfund loans are short-term in nature they should be paid back within a year.

Cause—Several of the Town's funds do not have the necessary funds to sustain their restricted cash requirements at December 31, 2011.

Effect— Certain funds had to borrow money from other funds to sustain operations.

Recommendation—We recommend that the Town monitor their cash accounts to ensure that they do not fall into a deficit position and develop a plan of action to remedy interfunds that have been outstanding for longer than one year.

Bank reconciliations

Condition—As previously communicated, the Town's bank reconciliations are not formally reviewed and/or signed-off by personnel other than the preparer. Additionally, we noted that the preparer is not independent of other key cash functions, including cash receipts and disbursements. Finally, although the Town performs bank reconciliations identifying the outstanding checks and deposits in transit, there is no formal process that ties the reconciled amount to the amount reported in the Town's general ledger. Such deficiencies have resulted in an irreconcilable difference at year-end of $39,988 in which the adjusted bank balance is greater than the general ledger balance.

Criteria—The Town's bank reconciliations should be reviewed and signed-off by someone independent of the cash functions. Additionally, all bank reconciliations should tie the adjusted bank balance to the general ledger.

Cause—The Town does not have a formal review/sign-off of bank reconciliations by personnel independent of the cash function. The Town performs bank reconciliations determining the outstanding checks and deposits in transit but does not trace the reconciled balance to the appropriate general ledger account.

Effect—An independent review of bank reconciliations is to prevent potential misappropriations of assets and/or misstatements. The Town is at a greater risk of misstated general ledger account balances and exposed to increased risk of errors in reporting and the opportunity for fraud.

Recommendation—We recommend that the Town's bank reconciliations are independently reviewed and signed-off upon by personnel other than the preparer. And, we suggest that all of the bank accounts of the Town be reconciled monthly to the appropriate general ledger accounts.

Segregation of duties

Condition—As previously communicated, the same employee receives deposits, records cash receipts, posts journal entries, prepares deposits, reconciles bank statements and has the ability to prepare checks. Additionally, we noted that the same employee that records expenditures has the ability to prepare checks and has access to the signature stamp.

Criteria—Key cash functions including receiving deposits, recording cash receipts, posting journal entries, preparing deposits, reconciling bank statements and cutting checks should be appropriately distributed to different employees.

Cause—Currently, the same employee receives deposits, records cash receipts, posts journal entries, prepares deposits, reconciles bank statements, has the ability to cut checks and has access to the signature stamp.

Effect—The absence of a segregated control system presents the opportunity for the misappropriation of assets and the potential misstatement of the financial statements.

Recommendation—We recommend that the key cash functions including receiving deposits, recording cash receipts, posting journal entries, preparing deposits, reconciling bank statements, cutting checks and access to the signature stamp should be appropriately distributed to different employees.

Finding 2011-2—Journal Entries

Condition— As previously communicated, during our audit we were not provided the Town's formal policy relating to their journal entry processes. Additionally, journal entries posted throughout the year lacked evidence of review.

Criteria—A formal policy should be established to clearly identify the procedures necessary to independently review and record a journal entry. This policy should require adequate supporting documentation and an understanding of each entry that is recorded.

Cause—Currently there is no formal policy for recording journal entries and a thorough understanding of each entry is not obtained prior to its recording.

Effect—The absence of a formal policy for the journal entry process threatens consistency in the recording and reviewing processes. Also, a lack of sufficient supporting documentation attached to each journal entry jeopardized the efficiency of the review process.

Recommendation—We recommend the Town formulate and establish a formal written journal entry policy which includes a policy that would require formal documentation of review of approved entries through a sign off. All entries should be reviewed and understood by an individual who did not prepare/post the entry.

Finding 2011-3—Capital Assets

Condition—As previously communicated, while conducting our audit we found that the Town does not capitalize its construction-in-progress or infrastructure and does not record depreciation any depreciable assets. Additionally, we noted that the Town has not performed, or have had performed, an inventory of capital assets that meets the recognition criteria for Governmental Accounting Standards Board ("GASB") Statement No. 34. Finally, during our testing of controls surrounding capital assets additions, we noted an item that fits the Town's criteria for capitalization but was not properly classified as a capital asset.

Criteria—GASB standards require that the Town appropriately account for its capital assets, including, infrastructure and the related depreciation on those and all other depreciable assets.

Cause—The Town has not recorded infrastructure or the depreciation on those or any other depreciable assets and has not recorded any activity in the current year. Additionally, the Town has not performed, or have had performed, an inventory of capital assets that meet the recognition criteria for GASB Statement No. 34.

Effect—The Town's financial statements do not present the financial position, and the changes in financial position, of the Town's governmental activities, and the business-type activity, fairly, in conformity with accounting principles generally accepted in the United States of America.

Recommendation—We recommend that the Town performs, or has performed, an inventory of capital assets that meet the recognition criteria of GASB Statement No. 34, and records the appropriate infrastructure and depreciation for those and all other depreciable assets as well as adopting a written capital asset policy.

Finding 2011-4—Postemployment Benefits other than Pensions ("OPEB")

Condition—As previously communicated, we found that the Town does not recognize a liability, or the related expense, for its OPEB obligation.

Criteria—GASB Statement No. 45, effective for the year ended December 31, 2008, requires a liability for the OPEB obligation be determined, recorded in the government-wide financial statements and appropriately disclosed in the footnotes.

Cause—The Town has not recorded the liability, or the related expense, for its OPEB obligation.

Effect—The Town's financial statements do not present the financial position, and the changes in financial position, of the Town's governmental activities, and the business-type activity, fairly, in conformity with accounting principles generally accepted in the United States of America.

Recommendation—We recommend that the Town has an actuarial study be performed to determine an appropriate OPEB liability.

Finding 2011-5—Governmental Accounting Standards and Principles

Condition—The Town has elected to outsource the compilation of its financial statements to its independent auditors. As the independent auditor, Drescher & Malecki LLP provides assistance to the Town in the drafting of the financial statements but, as the auditor of the Town, remains independent under Ethics Interpretation 101-3, *Performance of Nonattest Services* under Rule 101, *Independence* (AICPA, *Professional Standards,* vol. 2, ET §101.05). That is we post client-approved adjusting journal entries to the trial balance and assist in the drafting of the financial statements from the Town's trial balance. The Town remains responsible for preparing and approving adjusting entries. Currently, we believe the Town has the expertise to prepare financial statement grouping schedules and the schedules documenting the calculations in the notes to the financial statements. We also believe accounting personnel have an understanding of the New York State Uniform System of Accounts. However, we do not believe the Town has sufficient expertise in selecting and applying accounting principles generally accepted in the United States of America. Therefore, it does not have the expertise to internally prepare financial statements that conform with accounting principles generally accepted in the United States of America. The absence of this expertise is considered to be a weakness in controls as the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Town.

Criteria—Internal controls should be in place to ensure proper financial reporting and complete and accurate disclosures, exclusive of the efforts of the independent auditor.

Cause—The presence of several proposed journal entries accumulated during the audit of the year ended December 31, 2011 indicates insufficient utilization of GASB and Governmental GAAP standards and principles.

Effect—The financial statements included numerous adjusting journal entries, while not individually material to the financial statements, when considered as a whole, had a material effect on the Town's financial statements.

Recommendation—We recommend that the Town's accounting personnel acquire additional training in the preparation of financial statements and related disclosures. Town personnel should become more familiar with relevant statements of the Governmental Accounting Standards Board and Governmental GAAP reporting requirements. They should obtain a current disclosure checklist from the Government Finance Officers Association and read the Town's financial statements utilizing the checklist questions to ensure propriety and completeness of the footnotes.

We consider the deficiency presented below to be a significant deficiency in internal control.

Finding 2011-6—Policies and Procedures

While performing our audit, we noted several items concerning policies and procedures that comprise a significant deficiency in internal controls at the Town:

Financial procedures

Condition— As previously communicated, the Town's accounting systems, we noted that the Town does not have a master document containing its financial policies and procedures.

Criteria—A complete financial policy procedures manual should include operating budget policies; revenue and expenditure policies; fund balance policies; debt management policies; capital improvement policies; risk management policies; human resource policies; organization structure policies; as well as procurement policies. The documentation of accounting policies and procedures should be readily available to all employees who need it. It should delineate the responsibilities of all employees, especially the ability to authorize transactions and the responsibility for the safekeeping of assets and records.

Communication and formal documentation of financial procedures and related controls is an essential component of a comprehensive framework of internal financial controls. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency.

Cause—The Town has not yet developed and approved a policy and procedures manual.

Effect—The lack of a procedure manual could disrupt and normal work flow or a misstatement of the financial statements in the event of an extended absence of accounting personnel.

Recommendation—We suggest that the Town continue to update and document, on an ongoing basis, these various processes into its master document.

Vacation policy

Condition—The Town does not have policy regarding the requirement of annual vacations, nor does the Town does have a requirement for job duty rotation.

Criteria—The requirement that accounting personnel take annual vacations is a valuable internal control and cross training personnel reduces the disruption of work flow in the event of an extended absence of an employee.

Cause—The Town has not adopted a vacation policy or a job duty rotation policy

Effect—There is a risk of misappropriation of assets.

Recommendation—We recommend the Town adopts a policy that enforces the rotation of duties and mandatory vacations.

Computer policies

Condition—The Town does not have a comprehensive computer use policy covering areas such as passwords, computer use, remote access and maintaining user accounts.

Criteria—Computer controls should be in place and enforced to safeguard information.

Cause—The Town has not adopted a policy.

Effect—There is a greater risk that the Town's network will be left vulnerable to access from unauthorized users through remote access or inappropriate access rights.

Recommendation—We recommend the Town adopt a policy to include formalized procedures surrounding remote access, employee computer use, user account maintenance and passwords.

We consider the deficiencies presented below to be significant deficiencies in compliance.

Finding 2011-7—*Budget*

Condition—We noted that during the year ended December 31, 2011; certain line item expenditures exceeded the authorized line item budget. Additionally, budget transfers are only reviewed on an annual basis.

Criteria—Article 8, Section 117 of Town Law states, "...no officer, board, department or commission shall during any fiscal year expend or contract to be expended any money or incur any liability or enter into any contract which by its terms involves the expenditure of money for any purpose, unless provision therefore shall have been made in the annual budget..."

Cause—This condition resulted primarily as cash disbursements were made without reviewing budgets to determine that the expenditure line supported the disbursement and budget transfers were not reviewed in a timely manner.

Effect—The Town's is not in compliance with Article 8, Section 117 of Town Law. Additionally, weak controls regarding authorization of budget transfers may result in inappropriate transfers and expenditures exceeding the budget.

Recommendation—We recommend that the Town formalize its policy for departments to identify budgetary variances, to ensure that amounts are not expended in excess of the authorized budget. Budget transfers should be reviewed and approved on a more frequent basis to ensure that transfers are appropriate and no budget issues arise.

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