VILLAGE OF DEPEW

FINANCIAL STATEMENTS

MAY 31, 2010

VILLAGE OF DEPEW

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May 31, 2010

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Village of Depew
Depew, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of Village of Depew (the Village) as of and for the year ended May 31, 2010, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining fund information of the Village as of May 31, 2010, and the respective changes in financial position and budgetary comparisons for the general and sewer funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, the Village adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in 2010.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 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 inquires of management and the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Lumsden & McCormick, LLP

August 18, 2010

Village of Depew
Management's Discussion and Analysis
May 31, 2010
(Unaudited)

Introduction

Management's Discussion and Analysis (MD&A) of Village of Depew (the Village) provides an overview of the Village's financial performance and activities for the year ended May 31, 2010. The information contained in the MD&A should be considered in conjunction with the information presented in the Village's basic financial statements. This MD&A, the basic financial statements and related notes are essential to a full understanding of the Village's financial position and results of operations. The Village's basic financial statements have the following components: (1) government-wide financial statements; (2) governmental fund financial statements; (3) reconciliations between the government-wide and governmental fund financial statements; (4) agency fund statements; and (5) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the Village's assets and liabilities and the difference between the two is reported as net assets. The statement of activities and changes in net assets presents information showing how the Village's net assets change during each 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods. The government-wide financial statements present information about the Village as a whole. All of the activities of the Village are considered to be governmental activities.

Governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of 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 statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the Village's near term financing decisions. The reconciliation portion of the financial statements facilitates the comparison between governmental funds and governmental activities.

Agency funds are used to account for resources held for the benefit of parties outside of the Village. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's programs. The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and governmental fund financial statements.

Condensed Statement of Net Assets	**2010**	2009
Current and other assets	$ 4,129,000	$ 3,625,000
Capital assets	7,470,000	7,773,000
Total assets	11,599,000	11,398,000
Long-term liabilities outstanding	4,243,000	4,562,000
Other liabilities	4,390,000	4,383,000
Total liabilities	8,633,000	8,945,000
Net assets:		
Invested in capital assets, net of related debt	1,762,000	1,783,000
Unrestricted	1,204,000	670,000
Total net assets	$ 2,966,000	$ 2,453,000

Assets exceeded liabilities by $2,966,000 ($2,453,000 in 2009) at the close of the fiscal year. Capital assets (infrastructure, buildings, improvements, vehicles, furniture and fixtures) represent 64.4% (68.2% in 2009) of the Village's total assets. The largest portion of liabilities is outstanding debt directly related to the Village's investments in these capital assets. The Village uses these capital assets to provide services to citizens and as such these assets are not available for future use. Although the Village's investment in 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 cannot be used to liquidate these liabilities.

Significant changes in the 2010 statement of net assets in comparison to 2009 included a decrease in capital assets of $303,000 or 3.9% (an increase of $2,972,000 or 61.9% in 2009) which is a result of depreciation expense exceeding the amount of current year additions. The increase in current and other assets was the result of an increase in cash of $537,000 which is primarily due to improved operating results. The decrease in total liabilities of $312,000 or 3.5% (an increase of $3,145,000 or 54.2% in 2009) was due to a decrease in the bond anticipation note (BAN) payable and bonds outstanding due to principal payments. This decrease was offset in part by an increase of $74,000 to record the other postemployment benefit liability for unfunded health insurance benefits to be paid to retirees. The Village was required to adopt GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in 2010. The unfunded actuarial accrued liability at May 31, 2010 is estimated to be $3,101,000 which will be amortized to net assets over a thirty year period under provisions of GASB 45.

Condensed Statement of Activities	**2010**	2009
Revenues		
Program revenues		
Charges for services	$ 1,402,000	$ 1,413,000
Operating grants and contributions	890,000	886,000
General revenues		
Real property tax	8,055,000	7,988,000
Sales tax	1,545,000	1,565,000
Interest and other	664,000	560,000
Total revenues	12,556,000	12,412,000
Program expenses		
General government	2,317,000	2,535,000
Public safety	5,035,000	4,711,000
Health	3,000	7,000
Transportation	2,341,000	2,285,000
Economic assistance and opportunity	1,000	3,000
Culture and recreation	707,000	730,000
Home and community services	1,466,000	1,295,000
Interest expense	173,000	157,000
Total expenses	12,043,000	11,723,000
Change in net assets	513,000	689,000
Net assets - beginning	2,453,000	1,764,000
Net assets - ending	$ 2,966,000	$ 2,453,000

Total revenues increased by $144,000 or 1.2% (a decrease of $434,000 or 3.4% in 2009). Village real property taxes for the year ended May 31, 2010 and sales tax revenue account for 76.5% (77.0% in 2009) of the Village's total revenues. Increase in property tax is reflective of the Village's matching of revenue with anticipated expenses. The reduction in sales tax revenue reflects general economic trends.

Total expenses increased $320,000 or 2.7% (a decrease of $42,000 or 0.4% in 2009) with the public safety category representing 41.8% (40.2% in 2009) of total expenses. The public safety category contains the expenses for the Village's police and volunteer fire departments.

General government expenses decreased by $218,000 or 8.6% ($67,000 or 2.6% in 2009); public safety expenses increased by $324,000 or 6.9% (a decrease of $8,000 or 0.2% in 2009); and home and community service expenses increased by $171,000 or 13.2% (a decrease of $119,000 or 8.4% in 2009). The changes in these categories are a result of fluctuations in payroll and employee benefit costs due to retirements and increases in health insurance costs and implementation of GASB 45 as previously discussed, as well as an increase in depreciation expense due to a large number of additions in 2009. In addition, the general government expenses decreased because of lower energy bills due to the use of energy efficient lighting.

Financial Analysis of the Village's Funds

The total deficit fund balances for the governmental funds was reduced by $484,000 to a deficit of $210,000 ($694,000 in 2009) as further described below:

- Overall revenue across all government funds remained consistent with the prior year with an increase of $144,000 or 1.2% (a decrease of $432,000 or 3.4% in 2009). Areas where revenue increased include real property taxes, departmental income and sale of property and compensation for loss.
- Spending across all government funds decreased by $3,038,000 or 20.0% during 2010 (an increase of $2,517,000 or 19.9% in 2009). In 2009, the Village had $3,469,000 in expenditures for a sewer construction project, new equipment and improvements through the energy performance contract. There were no similar expenditures in 2010 which largely explains the decrease in the current year.

General Fund Budgetary Highlights

Total original general fund revenue budget for fiscal year 2010 was $11,277,000 and was adjusted by $181,000 to $11,458,000. Actual revenues (before other financing sources) were greater than budgeted revenues by $269,000, with the largest variance in sale of property and compensation for loss with actual revenue exceeding the budgeted amount by $93,000.

Total expenditures including carryover encumbrances were $819,000 under budget (before other financing uses). Controls on spending by department heads contributed to final expenditures being less than budgeted across all departments and functional categories.

Capital Assets

Capital assets net of depreciation are as follows:

	2010	2009
Land	$ 343,000	$ 343,000
Infrastructure	2,916,000	2,896,000
Buildings and improvements	5,037,000	4,870,000
Furniture and equipment	9,180,000	9,032,000
Vehicles	3,657,000	3,699,000
	21,133,000	20,840,000
Accumulated depreciation	(13,663,000)	(13,067,000)
	$ 7,470,000	$ 7,773,000

Net capital assets decreased by $303,000 from the beginning of the year. Total assets additions of $346,000 were offset by depreciation expense and asset disposals of $649,000.

Debt Administration

At May 31, 2010, the Village had $1,375,000 in bonds outstanding, with $200,000 due within one year ($1,700,000 outstanding in 2009). The Village's energy performance contract had $98,000 outstanding with $58,000 due within one year ($1,004,000 outstanding in 2009). Outstanding compensated absences payable were $1,721,000 with $336,000 expected to be paid during the next year ($1,634,000 outstanding in 2009).

Factors Impacting the Village's Future

It is expected that the Village will continue to face increases in health insurance, gasoline, utility costs, and a significant increase in required contributions to public employee retirement systems. The Village's PBA Contract, the CSEA Clerical and CSEA Blue collar union contracts will expire May 31, 2011. All contracts included raises ranging from 2.95%-3.1% and all new employees contribute 10% to their health insurance. These factors will have an impact on the programs the Village offers and the amount of funds it will need to provide services.

The Village Trustees have given attention to the rate of growth for both residential and commercial properties. The Village is no longer an assessing unit. This function is now performed by the Towns of Cheektowaga and Lancaster. The Village updated its Zoning Map in October 2009. This change allowed for the approval of the building of eight new homes in Depew in 2010-2011.

Contact for Village's Financial Management

This report is designed to provide a general overview of the finances of the Village of Depew for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to Mayor Barbara A. Alberti, 85 Manitou Street, Depew, New York.

Statement of Net Assets

May 31, 2010

(with comparative totals as of May 31, 2009)	**2010**	2009
Assets		
Cash	$ 3,554,187	$ 3,016,511
Accounts receivable	39,946	48,791
Due from other governments	510,265	533,816
Bond issuance costs, net	24,503	26,243
Capital assets (Note 6)	21,133,632	20,839,409
Accumulated depreciation	(13,663,646)	(13,066,821)
Total assets	11,598,887	11,397,949
Liabilities		
Accounts payable	91,051	50,484
Accrued liabilities	340,176	303,768
Bond anticipation note payable	3,958,500	4,028,500
Long-term liabilities		
Due within one year		
Bonds and notes	257,811	381,462
Compensated absences	336,500	236,500
Police and fire retirement system	106,918	98,997
Due beyond one year		
Bonds and notes	2,065,065	2,322,876
Compensated absences	1,384,500	1,397,500
Police and fire retirement system	17,998	124,916
Other postemployment benefits	73,949	-
Total liabilities	8,632,468	8,945,003
Net Assets		
Invested in capital assets, net of related debt	1,762,040	1,783,391
Unrestricted	1,204,379	669,555
Total net assets	$ 2,966,419	$ 2,452,946

See accompanying notes.

Statement of Activities and Changes in Net Assets

For the year ended May 31, 2010
(with summarized comparative totals for May 31, 2009)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue: 2010	Net (Expense) Revenue: 2009
Governmental activities					
General government	$ 2,316,688	$ 10,741	$ 369,138	$ (1,936,809)	$ (2,118,006)
Public safety	5,035,374	353,838	262,054	(4,419,482)	(4,109,797)
Health	3,289	2,111	-	(1,178)	(4,393)
Transportation	2,340,533	-	-	(2,340,533)	(2,285,321)
Economic assistance and opportunity	1,233	-	-	(1,233)	(2,893)
Culture and recreation	706,940	296,562	3,479	(406,899)	(442,026)
Home and community services	1,466,076	738,834	255,783	(471,459)	(305,222)
Interest expense	172,947	-	-	(172,947)	(157,080)
	$ 12,043,080	$ 1,402,086	$ 890,454	(9,750,540)	(9,424,738)
General revenues					
Property, sales and franchise taxes				9,984,697	9,957,282
Interest and other				279,316	156,307
Total general revenues				10,264,013	10,113,589
Change in net assets				513,473	688,851
Net assets - beginning				2,452,946	1,764,095
Net assets - ending				$ 2,966,419	$ 2,452,946

See accompanying notes.

Balance Sheet - Governmental Funds

May 31, 2010

(with summarized comparative totals for May 31, 2009)

	Major			Non-Major	Total	
			Capital	Community	Governmental Funds	
	General	Sewer	Projects	Development	2010	2009
Assets						
Cash	$ 2,395,558	$ 609,702	$ 548,927	$ -	$ 3,554,187	$ 3,016,511
Accounts receivable	39,946	-	-	-	39,946	48,791
Due from other governments	499,756	-	-	10,509	510,265	533,816
Due from other funds, net	-	-	1,375,000	17,425	1,392,425	1,375,000
Total assets	$ 2,935,260	$ 609,702	$ 1,923,927	$ 27,934	$ 5,496,823	$ 4,974,118
Liabilities and Fund Balances						
Accounts payable	$ 90,006	$ 1,045	$ -	$ -	$ 91,051	$ 50,484
Accrued liabilities	264,244	205	-	-	264,449	213,640
Due to other funds, net	82,425	1,310,000	-	-	1,392,425	1,375,000
Bond anticipation note payable	-	-	3,958,500	-	3,958,500	4,028,500
Total liabilities	436,675	1,311,250	3,958,500	-	5,706,425	5,667,624
Fund Balances						
Reserved for:						
Encumbrances	138,223	-	-	-	138,223	121,037
Unreserved:						
Designated for subsequent year's expenditures	750,000	-	-	-	750,000	500,000
Undesignated	1,610,362	(701,548)	(2,034,573)	27,934	(1,097,825)	(1,314,543)
Total fund balances (deficit)	2,498,585	(701,548)	(2,034,573)	27,934	(209,602)	(693,506)
Total liabilities and fund balances	$ 2,935,260	$ 609,702	$ 1,923,927	$ 27,934	$ 5,496,823	$ 4,974,118

See accompanying notes.

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

May 31, 2010

Total fund balances (deficit) - governmental funds		$ (209,602)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		7,469,986
Certain liabilities, including bonds payable, are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities include:		
Bonds and notes payable	(2,322,876)	
Accrued interest	(75,727)	
Compensated absences	(1,721,000)	
Other postemployment benefits	(73,949)	
Police and fire retirement system	(124,916)	(4,318,468)
Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued. The net balance at May 31 is:		24,503
Net assets - governmental activities		$ 2,966,419

See accompanying notes.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended May 31, 2010
(with summarized comparative totals for May 31, 2009)

	Major			Non-Major	Total	
			Capital	Community	Governmental Funds	
	General	Sewer	Projects	Development	2010	2009
Revenues						
Real property taxes	$ 8,054,879	$ -	$ -	$ -	$ 8,054,879	$ 7,987,813
Nonproperty taxes	1,929,818	-	-	-	1,929,818	1,969,469
Departmental income	320,197	570,452	-	-	890,649	856,994
Use of money and property	30,194	2,065	2,099	-	34,358	106,510
Licenses and permits	51,224	-	-	-	51,224	47,506
Fines and forfeitures	312,120	-	-	-	312,120	316,976
Miscellaneous local sources	45,439	-	-	-	45,439	16,262
Sale of property and compensation for loss	371,213	-	-	-	371,213	241,733
State sources	565,846	-	-	-	565,846	581,499
Federal sources	46,254	-	-	255,783	302,037	289,158
Total revenues	11,727,184	572,517	2,099	255,783	12,557,583	12,413,920
Expenditures						
General government	1,920,310	-	111,419	-	2,031,729	2,143,912
Public safety	3,169,436	-	-	47,302	3,216,738	3,311,564
Health	3,289	-	-	-	3,289	6,829
Transportation	1,236,314	-	207,467	261,859	1,705,640	1,713,715
Economic assistance and opportunity	-	-	-	1,233	1,233	2,893
Culture and recreation	511,384	-	-	19,724	531,108	517,271
Home and community services	1,035,059	246,907	12,493	-	1,294,459	4,492,758
Employee benefits	2,658,051	65,359	-	-	2,723,410	2,533,915
Debt service						
Principal	381,462	70,000	-	-	451,462	325,000
Interest	123,222	61,389	-	-	184,611	133,743
Total expenditures	11,038,527	443,655	331,379	330,118	12,143,679	15,181,600
Excess revenues (expenditures)	688,657	128,862	(329,280)	(74,335)	413,904	(2,767,680)
Other financings sources (uses)						
Proceeds from note payable	-	-	-	-	-	1,004,338
BANs redeemed from appropriations	-	-	70,000	-	70,000	-
Operating transfers, net	(205,654)	(40,000)	160,809	84,845	-	-
Total other financing sources (uses)	(205,654)	(40,000)	230,809	84,845	70,000	1,004,338
Net change in fund balances	483,003	88,862	(98,471)	10,510	483,904	(1,763,342)
Fund balances (deficit) - beginning	2,015,582	(790,410)	(1,936,102)	17,424	(693,506)	1,069,836
Fund balances (deficit) - ending	$ 2,498,585	$ (701,548)	$ (2,034,573)	$ 27,934	$ (209,602)	$ (693,506)

See accompanying notes.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities and Changes in Net Assets

For the year ended May 31, 2010

Total net change in fund balances - governmental funds		$ 483,904
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and asset disposals exceed capital outlays.		(302,602)
Payments of long-term liabilities are reported as expenditures in governmental funds and as a reduction of debt in the statement of net assets:		
Bonds and notes	381,462	
Retirement system payments	98,997	480,459
In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, these expenditures are reported when paid. These differences are:		
Amortization of bond issuance costs	(1,740)	
Compensated absences	(87,000)	
Other postemployment benefits	(73,949)	
Accrued interest	14,401	(148,288)
Change in net assets - governmental activities		$ 513,473

See accompanying notes.

Statement of Major Funds Revenues and Expenditures Budget (Non-GAAP) and Actual

For the year ended May 31, 2010

	General Fund				Sewer Fund			
	Budgeted Amounts		Actual (Budgetary	Variance with Final Budget	Budgeted Amounts		Actual (Budgetary	Variance with Final Budget
	Original	Final	Basis)	Over/(Under)	Original	Final	Basis)	Over/(Under)
Revenues								
Real property taxes	$ 8,042,970	$ 8,042,970	$ 8,054,879	$ 11,909	$ -	$ -	$ -	$ -
Nonproperty taxes	1,900,000	1,900,000	1,929,818	29,818	-	-	-	-
Departmental income	274,863	274,863	320,197	45,334	568,213	568,213	570,452	2,239
Use of money and property	49,800	49,800	30,194	(19,606)	500	500	2,065	1,565
Licenses and permits	44,000	44,000	51,224	7,224	-	-	-	-
Fines and forfeitures	265,000	265,000	312,120	47,120	-	-	-	-
Miscellaneous local sources	213,448	6,948	45,439	38,491	-	-	-	-
Sale of property and compensation for loss	-	278,190	371,213	93,023	-	-	-	-
State sources	487,136	559,800	565,846	6,046	-	-	-	-
Federal sources	-	36,627	46,254	9,627	-	-	-	-
Total revenues	11,277,217	11,458,198	11,727,184	268,986	568,713	568,713	572,517	3,804
Expenditures								
General government	2,369,048	2,204,677	1,933,774	(270,903)	-	-	-	-
Public safety	3,202,772	3,336,257	3,178,980	(157,277)	-	-	-	-
Health	41,000	41,000	3,289	(37,711)	-	-	-	-
Transportation	1,327,203	1,278,988	1,246,404	(32,584)	-	-	-	-
Culture and recreation	492,369	586,005	504,248	(81,757)	-	-	-	-
Home and community services	1,023,023	1,067,619	1,044,672	(22,947)	409,593	373,708	234,288	(139,420)
Employee benefits	2,887,917	2,866,896	2,658,051	(208,845)	29,700	65,585	65,359	(226)
Debt service								
Principal	325,000	381,462	381,462	-	110,650	110,650	70,000	(40,650)
Interest	107,533	129,853	123,222	(6,631)	61,389	61,389	61,389	-
Total expenditures	11,775,865	11,892,757	11,074,102	(818,655)	611,332	611,332	431,036	(180,296)
Excess revenues (expenditures)	(498,648)	(434,559)	653,082	1,087,641	(42,619)	(42,619)	141,481	184,100
Other financing sources (uses)								
Operating transfers in	40,000	40,000	40,000	-	70,000	70,000	-	(70,000)
Operating transfers out	(144,000)	(208,089)	(245,654)	37,565	(40,000)	(40,000)	(40,000)	-
Appropriated fund balance and carryover encumbrances	602,648	602,648	-	(602,648)	12,619	12,619	-	(12,619)
Total other financing sources (uses)	498,648	434,559	(205,654)	(640,213)	42,619	42,619	(40,000)	(82,619)
Excess revenues and other financing sources (uses)	$ -	$ -	$ 447,428	$ 447,428	$ -	$ -	$ 101,481	$ 101,481

Statement of Fiduciary Net Assets

May 31, 2010

		Agency
Assets		
Cash	$	50,648
Liabilities		
Other agency liabilities	$	50,648

See accompanying notes.

1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

The Village is governed by local laws and ordinances, Village law, General Municipal Law, and other laws of the State of New York (the State). The elected governing body is the Village Board. The Mayor serves as the executive and the Administrator serves as the chief fiscal officer. The scope of activities included within the accompanying financial statements are those transactions that comprise the Village's operations and are governed by, or significantly influenced by, the Village Board. The primary function of the Village is to provide basic services such as governmental administration, tax collection, highway, sewer, public safety, refuse collection, and recreational services. The financial reporting entity includes all funds, account groups, functions, and organizations over which Village officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Village's reporting entity does not contain any component units as defined in GASB Statement No. 14 and GASB Statement No. 39.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities and changes in net assets display financial activities of the overall Village, except for fiduciary activities. Eliminations have been made to minimize double counting of internal activities. These statements are required to distinguish between *governmental* and *business-type* activities of the Village. Governmental activities generally are financed through taxes and franchise fees, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Village does not maintain any business-type activities.

The statement of activities and changes in net assets presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities.

- Direct expenses are those that are specifically associated with a program or are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of the Village's programs, including personnel, overall administration and finance. Employee benefits are allocated to functional expenses as a percentage of related payroll expense.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs or fines and assessments collected for a violation of traffic laws or Village ordinances and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Village's funds, including fiduciary funds. Separate statements for each fund category - *governmental and fiduciary* - are presented. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column.

The Village reports the following major funds:

- *General fund.* This is the Village's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.
- *Sewer fund.* This fund is used to account for the operations and support of the infrastructure surrounding the Village's sewer system.
- *Capital projects fund.* This fund is used to report financial resources used for the acquisition, construction, or renovation of major capital facilities or equipment.

The Village reports the following non-major fund:

- *Community development fund.* This fund is established to account for the separate activities for which it is named.

The Village reports the following fiduciary fund:

- *Agency fund.* This fund accounts for assets held by the Village as agent for payroll and other employee third party withholdings. The agency fund is custodial in nature and does not involve the measurement of results of operations.

The basic financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Village's financial statements for the year ended May 31, 2009, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within ninety days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured.

Capital asset purchases are reported as expenditures in the governmental funds. Proceeds of long-term liabilities and equipment and property purchased under capital leases are reported as other financing sources.

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures. Amounts received in advance of the expenditures are deferred and reported as revenue when the expense is incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property Taxes

Pursuant to the Erie County Tax Act, the Village is initially responsible for collecting its general and special assessment tax levies. On May 31, 1980, the County of Erie began a program whereby it reimburses the Village for all its outstanding delinquent taxes and disposition of any resulting liens. This program has been revised so that the Village is reimbursed in the same fiscal year in which the taxes are levied.

The process for the levy of real property taxes is:

- May 1 – Real property tax levied
- June 1 – Real property tax due
- July 1 – Real property taxes overdue; 7.5% penalty through August 1, thereafter interest added at the rate of 1.5% per month
- November 1 – All outstanding real property taxes turned over to the County of Erie
- March 31 – Erie County reimburses the Village for delinquent taxes

Budget Process, Amendments and Transfers

Annual appropriations are adopted and employed for control of the general, sewer and community development funds. These budgets are adopted on a GAAP basis under the modified accrual basis of accounting except that encumbrances are reported as a budgetary expenditure in the year of incurrence of the commitment for the purchase as well as when the expenditure is paid in the subsequent year. All unencumbered appropriations lapse at the end of the fiscal year. At June 1, encumbrances carried forward from the prior year are reestablished as budgeted appropriations.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations authorized for the current year are increased by the planned use of specific reserves and budget amendments approved by the Board as a result of new revenue sources not included in the original budget.

Capital projects funds are subject to individual project expenditures determined primarily by the cost of the project together with the requirements for external borrowings used to fund a particular project rather than annual appropriations. These budgets do not lapse at year end and are carried over to the completion of the project.

No later than March 20th of each year, a tentative budget is submitted to the Village Board for the fiscal year commencing the following June 1. The tentative budget includes both proposed expenditures and the means of financing for all funds. After public hearings are conducted to obtain taxpayer comments, the Board adopts the Budget no later than May 1st.

Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified. The following is a reconciliation of expenditures and fund balances computed on a GAAP and a budgetary basis:

	General	Sewer
GAAP basis expenditures	$ 11,038,527	$ 443,655
Encumbrances at May 31, 2010	138,223	-
Encumbrances at May 31, 2009	(102,648)	(12,619)
Budgetary basis expenditures	$ 11,074,102	$ 431,036

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is used in the governmental funds. Outstanding encumbrances at year end, exclusive of grant-related commitments, are presented for GAAP related purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored in the subsequent year.

Cash

Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

Capital Assets

Capital assets including infrastructure are reported at actual or estimated historical cost based on appraisal. Contributed assets are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization Policy	**Estimated Useful Life**
Land improvements	$5,000	20
Infrastructure	$5,000	20-75
Buildings and improvements	$5,000	20-50
Equipment	$5,000	5-15
Vehicles	$5,000	10-15

Other Assets

Bond issuance costs are recognized in the period bonds are issued in the governmental funds. Within the government-wide financial statements, bond issuance costs are capitalized and amortized on a straight-line basis over the life of the debt issue as a component of interest expense.

Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid accumulated annual sick and vacation time. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive payments and other employees expected to become eligible in the future to receive such payments are included. Sick pay is accrued on the basis of negotiated contracts which provide for the payment of accumulated sick time at various amounts at retirement.

The government-wide financial statements reflect the entire liability, while in the governmental funds financial statements, only the amount of matured liabilities is accrued based on expendable available financial resources. These amounts are expensed as paid.

Equity Classifications

Government-wide statements

- *Invested in capital assets, net of related debt* - consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – net assets are considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Village's bonds. At the present time there are no such restrictions.
- *Unrestricted net assets* – consists of all other net assets that do not meet the definition of the above two components and are available for general use by the Village.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Village's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis and applies unrestricted resources first if permissible by law.

Governmental fund statements

Reservations of fund balances are created to satisfy legal restrictions, plan for future expenditures, or represent resources not available for use or appropriation for expenditure. Reserves are established through Board action. Earnings on invested resources are required to be added to the various reserves. A designation of unreserved fund balances indicates the planned use of these resources in the subsequent year's budget.

Interfund Transfers

The operations of the Village include transactions between funds. The Village typically provides resources between funds. These interfund receivables and payables are repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

In the government-wide statements, the amounts reported on the statement of net assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary fund). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary fund.

Interfund receivables and payables are netted on the accompanying governmental funds balance sheet as the right of legal offset exists. It is the Village's practice to settle these amounts at the net balances due between funds.

2. Change in Accounting Principle

For the year ended May 31, 2010, the Village adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This pronouncement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses and related liabilities, note disclosures, and required supplementary information (Note 10). The Village has chosen to implement this requirement on a prospective basis.

3. Stewardship and Accountability

The sewer fund deficit of $701,548 and the capital fund deficit of $2,034,573 will be funded when bond anticipation notes are redeemed from permanent financing through the issuance of serial bonds.

Operating transfers made in the general fund exceeded the amended budgeted amount by $37,565.

4. Cash and Investments

Investment policies are governed by State laws and as established in the Village's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Village is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

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

Custodial credit risk is the risk that in the event of a bank failure the Village's deposits may not be returned to it. As of May 31, 2010, $2,848,108 of the Village's bank deposits was exposed to custodial credit risk as the collateral was either held by the pledging bank in the Village's name or held by a third party but not in the Village's name.

Restricted cash represents cash whose use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes and amounted to $548,927 at May 31, 2010.

5. Interfund Transactions – fund financial statements

			Transfers	
Fund	**Receivable**	**Payable**	**In**	**Out**
General	$ -	$ 82,425	$ 40,000	$ 245,654
Sewer	40,000	1,350,000	-	40,000
Capital projects	1,375,000	-	160,809	-
Community development	17,425	-	84,845	-
	$ 1,432,425	**$ 1,432,425**	**$ 285,654**	**$ 285,654**

The Village's transfer of funds to the capital fund from the general and sewer funds provides financing for various capital projects. These transfers are considered permanent. The general fund transfers funds to the community development fund to provide financing for various programs and are also permanent.

6. Capital Assets

	Balance June 1, 2009	Increases	Retirements/ Reclassifications	Balance May 31, 2010
Capital assets not being depreciated:				
Land	$ 343,221	$ -	$ -	$ 343,221
Capital assets being depreciated:				
Infrastructure	2,895,929	19,750	-	2,915,679
Buildings and improvements	4,869,472	167,560	-	5,037,032
Equipment	9,031,399	149,083	-	9,180,482
Vehicles	3,699,388	9,940	(52,110)	3,657,218
Total depreciated assets	20,496,188	346,333	(52,110)	20,790,411
Less accumulated depreciation:				
Infrastructure	98,950	85,412	-	184,362
Buildings and improvements	3,418,697	115,802	-	3,534,499
Equipment	8,186,296	189,961	-	8,376,257
Vehicles	1,362,878	256,730	(51,080)	1,568,528
Total accumulated depreciation	13,066,821	647,905	(51,080)	13,663,646
Total depreciated assets, net	7,429,367	(301,572)	(1,030)	7,126,765
	$ 7,772,588	**$ (301,572)**	**$ (1,030)**	**$ 7,469,986**

Depreciation has been allocated to the following functions: general government $90,707, transportation $129,581, home and community $32,395, culture and recreation $45,353 and public safety $349,869.

As of May 31, 2010, invested in capital assets, net of related debt consists of the following:

Capital assets, net of accumulated depreciation	$ 7,469,986
Cash restricted for capital projects	548,927
Bond anticipation notes payable	(3,958,500)
Bond issuance costs, net	24,503
Bonds and notes payable	(2,322,876)
	$ 1,762,040

7. Short-Term Debt

Liabilities for bond anticipation notes (BANs) are generally accounted for in the capital projects fund. The notes, or renewal thereof, may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter. State law requires that BANs issued for capital purposes be converted into long-term obligations within five years of the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of permanent financing, provided that stipulated annual reductions of principal are made.

The BAN outstanding at May 31, 2010 amounted to $3,958,500 ($4,028,500 as of May 31, 2009) and carries an interest rate of 1.59% (2.16% in 2009). In 2010, $70,000 of outstanding BANs were redeemed. The Village intends to replace the BAN with permanent financing in the upcoming year.

8. Long-Term Liabilities

	June 1, 2009	Increases	Decreases	May 31, 2010	Amount Due in One Year
Bonds	$ 1,700,000	$ -	$ 325,000	$ 1,375,000	$ 200,000
Energy performance contract	1,004,338	-	56,462	947,876	57,811
Police and fire retirement system	223,913	-	98,997	124,916	106,918
Compensated absences	1,634,000	87,000	-	1,721,000	336,500
	$ 4,562,251	**$ 87,000**	**$ 480,459**	**$ 4,168,792**	**$ 701,229**

Existing obligations:

Description	Maturity	Rate	Balance
Public Improvement Serial Bonds	December 2012	4.6%	$ 150,000
Public Improvement Serial Bonds	February 2016	4.5%	425,000
Public Improvement Serial Bonds	June 2024	4.2 - 5.0%	800,000
Energy performance contract	October 2023	2.4%	947,876
PFRS retirement	May 2012	8.0%	124,916
			$ 2,447,792

Debt service requirements:

	Serial Bonds		Retirement system	
Year ending May 31,	Principal	Interest	Principal	Interest
2011	$ 200,000	$ 61,831	$ 106,918	$ 9,521
2012	195,000	52,763	17,998	1,440
2013	195,000	43,875	-	-
2014	145,000	34,900	-	-
2015	145,000	28,250	-	-
2016-2020	320,000	74,262	-	-
2021-2025	175,000	17,750	-	-
	$ 1,375,000	**$ 313,631**	**$ 124,916**	**$ 10,961**

Lease obligations:

The Village leases various equipment under the terms of noncancelable operating leases. Rental expense for all operating leases amounted to $75,161 for the year ended May 31, 2010. The Village also entered into an energy performance contract with a finance company in 2009 with future payments totaling $1,126,383 and is accounted for as a capital lease requiring annual payments of $80,456. Future minimum rentals to be paid for all leases are:

Years ending May 31,	Operating	Capital Principal	Capital Interest
2011	$ 30,149	$ 57,811	$ 22,645
2012	-	59,192	21,264
2013	-	60,606	19,850
2014	-	62,054	18,402
2015	-	63,537	16,919
2016-2020	-	341,191	61,089
2021-2024	-	303,485	18,338
	$ 30,149	$ 947,876	$ 178,507

The carrying value of the related equipment under the capital lease net of accumulated amortization was $838,852 as of May 31, 2010.

9. Contributions to Pension Plans

Public Retirement Systems

The Village participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (the Systems), which are cost-sharing multiple-employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. The Systems issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the New York State and Local Employees’ Retirement System, 110 State Street, Albany, New York 12244-0001.

Funding Policy

ERS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems between July 1976 and December 2009, however PFRS does not require contributions for employees hired within that timeframe. Participants hired after January 1, 2010 (ERS) or January 9, 2010 (PFRS) are required to contribute 3% of compensation throughout their active membership in the Systems. No employee contribution is required for those hired prior to July 1976. The Comptroller annually certifies the rates, expressed as a percentage of the wages of participants, used to compute the contributions required to be made by the Village to the pension accumulation fund.

The required contributions and rates over the past three years were:

	ERS Contribution Amount	ERS Contribution Rates	PFRS Contribution Amount	PFRS Contribution Rates
2010	$ 169,153	7.0%-9.3%	$ 402,071	14.4%
2009	197,591	8.0%-10.8%	435,879	15.0%
2008	250,729	8.5%-11.7%	565,305	15.6%

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

Volunteer Fireman - Length of Service Awards Program

The Village established a defined benefit Length of Service Award Program (LOSAP) for the active volunteers of the Village's fire department. The program was established pursuant to Article 11-A of General Municipal Law. The program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteers. The Village is the sponsor of the program.

Under LOSAP, participating volunteers are paid a service award upon attainment of the program's entitlement age based upon the number of years of credited service. Active volunteers age 18 and older who have completed one year of service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with 5 years of service or upon attaining the program's entitlement age of 62.

A participant's service award benefit is the actuarial equivalent of a monthly payment for life with payments guaranteed for 10 years equal to $20 multiplied by the person's number of years of credited service. The number of years of service used to compute the benefit cannot exceed 30 years. Except in the case of disability or death, benefits are payable when the participant reaches entitlement age.

The Village has retained and designated Penflex, Inc. (Penflex) to assist in the administration of the program, RBC Wealth Management to provide investment management and custodial services and Comerica Bank to pay benefits to participants.

Program assets are required to be held in trust by Article 11-A, 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. The Trustees created a Service Award Program Trust Fund through the adoption of the Trust Document, a copy of which is available from the Village Clerk. The Trustees serve as program trustee. Because Village management does not exercise control nor is otherwise involved in managing plan assets, distributions, or benefit determinations, the Trust's assets are not included within the financial statements.

Information for the year ended December 31, 2009 is as follows:

Actuarial present value of benefits at 12/31/09		$ 2,856,359
Less: Assets available for benefits		
Cash and money market	61,286	
Interst and dividends receivable	8,276	
Fixed income	1,954,332	
Mixed assets	373,486	
Other assets including benefits not paid at December 31	39,955	
Total net assets available for benefits		2,437,335
Total unfunded benefits		419,024
Unfunded liability for prior service		(125,884)
Unfunded normal benefits		$ 293,140

Prior service costs have been amortized and paid. The unfunded liability for additional service awards earned after attainment of entitlement age is being amortized over five years at a discount rate of 6%.

Receipts and disbursements:

Plan net assets, beginning of year		$ 2,021,918
Changes during the year:		
Plan contributions	192,419	
Investment income	98,745	
Change in fair market value	256,582	
Investment expenses	(7,296)	
Benefits paid	(123,820)	
Adminstrative fees	(1,213)	
		415,417
Plan net assets, end of year		$ 2,437,335

Contributions:

Amount of Village's contribution recommended by actuary and paid	$ 192,419

Administrative fees:

Fees paid to designated program administrator	$ 5,617
Fees paid for investment management	$ 7,296
Other administrative fees	$ 1,213

The actuarial valuation methodology used to determine the Village's contribution is the Attained Age Normal Frozen Initial Liability method. The actuarial assumptions used to determine the Village's contribution and the present value of benefits are as follows:

Assumed rate of return on program investments	6.00%
Tables used for:	
Post-entitlement age mortality	1994 Unisex Pensioner Male Mortality Table projected with scale AA to 2007
Pre-entitlement age mortality	None
Pre-entitlement age disability	None
Pre-entitlement age withdrawal	None
Pre-entitlement age service award accruals	100%

For program cost calculation purposes, all pre-entitlement age active participants are assumed to survive to the entitlement age, remain active and earn 50 points annually, and receive service awards upon attainment of the entitlement age.

10. Postemployment Healthcare Benefits

The Village maintains a single-employer defined benefit healthcare plan (the Plan) providing for the continuation of medical benefits to certain eligible retirees and spouses.

Benefit provisions are based on individual contracts with the Village, as negotiated from time to time. The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the Village over age 55 (age 50 for police) with between ten and twenty years of service depending on hire date and contract applicability. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended May 31, 2010, the Village contributed $121,935 for plan benefits. Retirees are provided with health insurance at different cost percentages depending on their retirement date and bargaining unit. The Village principally provides a fixed per annum contribution towards insurance for those employee groups covered.

The Village's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the Village. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities over 30 years. OPEB expense is calculated based upon the ARC and the following components:

- Amortization of the unfunded actuarial accrued liability (UAAL) for the current year, which is the actuarially-determined, unfunded present value of all future OPEB costs associated with current employees and retirees at the beginning of the year.
- Normal cost which is the actuarially-determined cost of future OPEB earned in the current year.

The following table summarizes the Village's annual OPEB for the year ended May 31, 2010:

Annual required contribution	
Normal cost	$ 54,420
Amortization of unfunded actuarial accrued liability	141,464
	195,884
Contributions made	(121,935)
Increase in net OPEB obligation	73,949
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 73,949

The Village's annual OPEB cost amounted to $195,884, the percentage of annual OPEB cost contributed to the Plan was 62.2%, and the net OPEB obligation for 2010 was $73,949. In subsequent periods, these indicators will be disclosed for three fiscal years.

As of May 31, 2010, the actuarial accrued liability for benefits was $3,100,804, all of which is unfunded. The annual payroll of employees covered by the Plan was $5,138,462, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 60.3%. This data will be reflected as required supplemental information as future actuarial valuations are performed.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and ARC of the Village are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. A schedule of funding progress will be presented in future years as required supplementary information. This schedule will display multi-year trend information about whether the actuarial value of Plan assets (if any) is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

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

Retirement age for active employees – active plan members were assumed to retire beginning at age 55 with 100% retired by age 70
Marital status – 70% married, with male spouses assumed to be three years older than female spouses unless actual ages provided for retirees
Mortality – RP-2000 projected to 2010, weighted 40% white collar, 60% blue collar; separate rates for males and females
Turnover – 2003 Society of Actuaries small plan withdrawal
Healthcare cost trend rate – Medical trends at a rate of 10% initially, with ½% annual decrements with an ultimate trend rate of 5% after ten years
Actuarial cost method – Entry Age Normal Method over a level percent of pay
Discount rate – 5%
Salary Scale – 4%
Amortization method – 30 years level percent of pay, open group

11. Commitments and Contingencies

The Village is involved in legal proceedings which, in the opinion of management, will not have a material adverse effect upon the financial position of the Village.

12. Risk Management

The Village purchases commercial insurance for various risks of loss due to torts, thefts, damage, errors, omissions, and natural disasters. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.