VILLAGE OF DEPEW

FINANCIAL STATEMENTS

MAY 31, 2011

VILLAGE OF DEPEW

Table of Contents

May 31, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Village of Depew

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, 2011, which collectively comprise the Village's 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, 2011, 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.

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 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 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the financial statements, and other knowledge we obtained during our audit of the 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 26, 2011

Village of Depew
Management's Discussion and Analysis
May 31, 2011
(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, 2011. The information contained in the MD&A should be considered in conjunction with the information presented in the Village's financial statements. This MD&A, the financial statements and related notes are essential to a full understanding of the Village's financial position and results of operations. The Village's 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 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 year. Such information may be useful in evaluating the Village'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	**2011**	2010
Current and other assets	$ 4,067,000	$ 4,129,000
Capital assets	7,078,000	7,470,000
Total assets	11,145,000	11,599,000
Long-term liabilities outstanding	7,247,000	4,243,000
Other liabilities	605,000	4,390,000
Total liabilities	7,852,000	8,633,000
Net assets:		
Invested in capital assets, net of related debt	1,926,000	1,762,000
Unrestricted	1,367,000	1,204,000
Total net assets	$ 3,293,000	$ 2,966,000

Assets exceeded liabilities by $3,293,000 ($2,966,000 in 2010) at the close of the year. Capital assets (infrastructure, buildings, improvements, vehicles, furniture and fixtures) represent 63.5% (64.4% in 2010) 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 2011 statement of net assets in comparison to 2010 included a decrease in capital assets of $392,000 or 5.2% ($303,000 or 3.9% in 2010) which is a result of depreciation expense exceeding the amount of current year additions. The significant change between the Village's long-term and short-term liabilities from 2010 was due to replacing a bond anticipation note (BAN) in the amount of $3,958,500 with a bond in the amount of $3,637,000. The Village's compensated absences balance decreased $245,000 or 14.2% due to a number of retirements during the year.

The Village's unfunded actuarial accrued liability as of May 31, 2011 as a result of the adoption of GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions* is estimated to be $3,101,000 which will be amortized over a 30 year period.

Condensed Statement of Activities		2011		2010
Revenues				
Program revenues				
Charges for services	$	1,411,000	$	1,402,000
Operating grants and contributions		620,000		890,000
Capital grants and contributions		239,000		-
General revenues				
Property, sales and franchise taxes		10,031,000		9,985,000
Interest and other		189,000		279,000
Total revenues		12,490,000		12,556,000
Program expenses				
Support services				
General government		2,795,000		2,317,000
Public safety		4,943,000		5,035,000
Health		1,000		3,000
Transportation		1,978,000		2,341,000
Economic assistance and opportunity		-		1,000
Culture and recreation		657,000		707,000
Home and community services		1,622,000		1,466,000
Interest expense		167,000		173,000
Total expenses		12,163,000		12,043,000
Change in net assets		327,000		513,000
Net assets-beginning of year		2,966,000		2,453,000
Net assets-end of year	$	3,293,000	$	2,966,000

Total revenues remained consistent with a $66,000 or .5% decrease (an increase of $144,000 or 1.2% in 2010). Village property, sales and franchise taxes for the year ended May 31, 2011 account for 80.3% (79.5% in 2010) of the Village's total revenues. A slight decrease in property taxes was partially offset by a reduction in sales tax revenue reflecting general economic trends.

Total expenses increased $120,000 or 1.0% ($320,000 or 2.7% in 2010) with public safety representing 40.6% (41.8% in 2010) of total expenses. Public safety expenses include the Village's police and volunteer fire departments. General government expenses increased by $478,000 or 20.6% (a decrease of $218,000 or 8.6% in 2010); home and community services expenses increased by $156,000 or 10.6% ($171,000 or 13.2% in 2010) and transportation expenses decreased by $363,000 or 15.5% (an increase of $56,000 or 2.5% in 2010). 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.

Financial Analysis of the Village's Funds

The total fund balances for the governmental funds increased by $3,743,000 to a balance of $3,533,000 (a deficit balance of $210,000 in 2010) as further described below:

- Overall revenue across all government funds remained consistent with the prior year. Areas where revenue decreased include fines and forfeitures, sale of property and compensation for loss, and federal sources.
- The Village received proceeds from the issuance of a bond in the amount of $3,637,000.
- Spending across all government funds increased by $562,000 or 4.6% during 2011 (a decrease of $3,038,000 or 20.0% in 2010). A majority of the increase was in the employee benefits category with an increase of $397,000 or 14.6% ($189,000 or 7.8% in 2010) due to an increase in health insurance costs and State retirement pension costs.

General Fund Budgetary Highlights

The total original general fund revenue budget for fiscal year 2011 was $11,261,000 and was adjusted by $145,000 to $11,406,000. Actual revenues (before other financing sources) were greater than budgeted revenues by $271,000, with the largest variance in non property taxes with actual revenue exceeding the budgeted amount by $140,000.

Total expenditures including carryover encumbrances were $223,000 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:

	2011	2010
Land	$ 343,000	$ 343,000
Infrastructure	2,952,000	2,916,000
Buildings and improvements	5,084,000	5,037,000
Equipment	9,268,000	9,180,000
Vehicles	3,700,000	3,657,000
	21,347,000	21,133,000
Accumulated depreciation	(14,269,000)	(13,663,000)
	$ 7,078,000	$ 7,470,000

Net capital assets decreased by $392,000 from the beginning of the year. Total assets additions of $214,000 were offset by depreciation expense and asset disposals of $606,000.

Debt Administration

At May 31, 2011, the Village had $4,812,000 in bonds outstanding, with $517,000 due within one year ($1,375,000 outstanding in 2010). The Village's energy performance contract amounted to $890,000 with $59,000 due within one year ($948,000 outstanding in 2010). Outstanding compensated absences payable were $1,476,000 with $330,000 expected to be paid during the next year ($1,721,000 outstanding in 2010). The Village issued a bond in 2011 in the amount of $3,637,000 which will be paid in full in 2029.

Additional information on the Village's long-term liabilities can be found in the notes to the financial statements.

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 expired on May 31, 2011 and are currently in negotiations. 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 start of construction to build 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 Steven P. Hoffman, 85 Manitou Street, Depew, New York.

Statement of Net Assets

May 31, 2011

(with comparative totals as of May 31, 2010)	2011	2010
Assets		
Cash	$ 3,491,236	$ 3,554,187
Accounts receivable	35,910	39,946
Due from other governments	516,730	510,265
Bond issuance costs, net	22,763	24,503
Capital assets (Note 4)	21,347,637	21,133,632
Accumulated depreciation	(14,269,212)	(13,663,646)
Total assets	11,145,064	11,598,887
Liabilities		
Accounts payable	217,887	91,051
Accrued liabilities	387,019	340,176
Bond anticipation note payable	-	3,958,500
Long-term liabilities		
Due within one year		
Bonds and notes	576,192	257,811
Compensated absences	330,000	336,500
Police and fire retirement system	17,998	106,918
Due beyond one year		
Bonds and notes	5,125,873	2,065,065
Compensated absences	1,146,000	1,384,500
Police and fire retirement system	-	17,998
Other postemployment benefits	51,277	73,949
Total liabilities	7,852,246	8,632,468
Net Assets		
Invested in capital assets, net of related debt	1,926,267	1,762,040
Unrestricted	1,366,551	1,204,379
Total net assets	$ 3,292,818	$ 2,966,419

See accompanying notes.

Statement of Activities and Changes in Net Assets

For the year ended May 31, 2011
(with summarized comparative totals as of May 31, 2010)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue: 2011	Net (Expense) Revenue: 2010
Governmental activities						
General government	$ 2,794,745	$ 12,012	$ 359,918	$ -	$ (2,422,815)	$ (1,936,809)
Public safety	4,943,261	372,451	257,492	-	(4,313,318)	(4,419,482)
Health	1,265	2,839	-	-	1,574	(1,178)
Transportation	1,977,927	-	-	-	(1,977,927)	(2,340,533)
Economic assistance and opportunity	450	-	-	-	(450)	(1,233)
Culture and recreation	656,800	291,688	3,008	-	(362,104)	(406,899)
Home and community services	1,621,574	732,058	-	238,534	(650,982)	(471,459)
Interest expense	167,459	-	-	-	(167,459)	(172,947)
	$ 12,163,481	$ 1,411,048	$ 620,418	$ 238,534	(9,893,481)	(9,750,540)
General revenues						
Property, sales and franchise taxes					10,031,142	9,984,697
Interest and other					188,738	279,316
Total general revenues					10,219,880	10,264,013
Change in net assets					326,399	513,473
Net assets - beginning					2,966,419	2,452,946
Net assets - ending					$ 3,292,818	$ 2,966,419

See accompanying notes.

Balance Sheet - Governmental Funds

May 31, 2011
(with summarized comparative totals as of May 31, 2010)

	Major			Non-Major	Total	
			Capital	Community	Governmental Funds	
	General	Sewer	Projects	Development	2011	2010
Assets						
Cash	$ 2,384,860	$ 579,232	$ 527,144	$ -	$ 3,491,236	$ 3,554,187
Due from other governments	516,730	-	-	-	516,730	510,265
Accounts receivable	35,910	-	-	-	35,910	39,946
Due from other funds, net	433,697	93,447	-	-	527,144	1,392,425
Total assets	$ 3,371,197	$ 672,679	$ 527,144	$ -	$ 4,571,020	$ 5,496,823
Liabilities and Fund Balances						
Accounts payable	$ 215,858	$ 2,029	$ -	$ -	$ 217,887	$ 91,051
Accrued liabilities	290,140	2,674	-	-	292,814	264,449
Due to other funds, net	-	-	527,144	-	527,144	1,392,425
Bond anticipation note payable	-	-	-	-	-	3,958,500
Total liabilities	505,998	4,703	527,144	-	1,037,845	5,706,425
Fund Balances						
Reserved for:						
Encumbrances	218,816	6,586	-	-	225,402	138,223
Unreserved:						
Designated for subsequent year's expenditures	700,000	200,000	-	-	900,000	750,000
Undesignated	1,946,383	461,390	-	-	2,407,773	(1,097,825)
Total fund balances (deficit)	2,865,199	667,976	-	-	3,533,175	(209,602)
Total liabilities and fund balances	$ 3,371,197	$ 672,679	$ 527,144	$ -	$ 4,571,020	$ 5,496,823

See accompanying notes.

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

May 31, 2011

Total fund balances - governmental funds		$ 3,533,175
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds.		7,078,425
Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:		
Bonds and notes	(5,702,065)	
Accrued interest	(94,205)	
Compensated absences	(1,476,000)	
Other postemployment benefits	(51,277)	
Police and fire retirement system	(17,998)	(7,341,545)
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:		22,763
Net assets - governmental activities		$ 3,292,818

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

For the year ended May 31, 2011

(with summarized comparative totals as of May 31, 2010)

	Major			Non-Major	Total	
			Capital	Community	Governmental Funds	
	General	Sewer	Projects	Development	2011	2010
Revenues						
Real property taxes	$ 8,061,305	$ -	$ -	$ -	$ 8,061,305	$ 8,054,879
Nonproperty taxes	1,969,837	-	-	-	1,969,837	1,929,818
Departmental income	315,450	569,437	-	-	884,887	890,649
Use of money and property	29,086	3,304	2,146	-	34,536	34,358
Licenses and permits	81,933	-	-	-	81,933	51,224
Fines and forfeitures	298,292	-	-	-	298,292	312,120
Miscellaneous local sources	34,672	-	-	-	34,672	45,439
Sale of property and compensation for loss	287,014	-	-	-	287,014	371,213
State sources	560,356	-	-	-	560,356	565,846
Federal sources	38,514	-	-	238,534	277,048	302,037
Total revenues	11,676,459	572,741	2,146	238,534	12,489,880	12,557,583
Expenditures						
General government	2,142,472	99,240	-	-	2,241,712	2,031,729
Public safety	3,207,972	-	21,033	41,183	3,270,188	3,216,738
Health	1,265	-	-	-	1,265	3,289
Transportation	1,101,820	-	209,455	161,821	1,473,096	1,705,640
Economic assistance and opportunity	-	-	-	450	450	1,233
Culture and recreation	430,913	-	-	62,184	493,097	531,108
Home and community services	1,189,450	186,609	2,813	-	1,378,872	1,294,459
Employee benefits	3,082,928	36,613	-	830	3,120,371	2,723,410
Debt service						
Principal	439,311	140,000	-	-	579,311	451,462
Interest	103,039	44,202	-	-	147,241	184,611
Total expenditures	11,699,170	506,664	233,301	266,468	12,705,603	12,143,679
Excess revenues (expenditures)	(22,711)	66,077	(231,155)	(27,934)	(215,723)	413,904
Other financings sources (uses)						
Proceeds from issuance of serial bonds	-	-	3,637,000	-	3,637,000	-
BANs redeemed from appropriations	-	-	321,500	-	321,500	70,000
Operating transfers, net	389,325	1,303,447	(1,692,772)	-	-	-
Total other financing sources (uses)	389,325	1,303,447	2,265,728	-	3,958,500	70,000
Net change in fund balances	366,614	1,369,524	2,034,573	(27,934)	3,742,777	483,904
Fund balances (deficit) - beginning	2,498,585	(701,548)	(2,034,573)	27,934	(209,602)	(693,506)
Fund balances - ending	$ 2,865,199	$ 667,976	$ -	$ -	$ 3,533,175	$ (209,602)

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, 2011

Total net change in fund balances - governmental funds		$ 3,742,777
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. In the statement of activities, the cost of the assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays.		(391,561)
Bond proceeds are recorded as other financing sources in the governmental funds but increase long-term liabilities in the statement of net assets.		(3,637,000)
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	257,811	
Retirement system payments	106,918	364,729
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	245,000	
Other postemployment benefits	22,672	
Accrued interest	(18,478)	247,454
Change in net assets - governmental activities		$ 326,399

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

For the year ended May 31, 2011

	General Fund				Sewer Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Over/(Under)	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Over/(Under)
	Original	Final			Original	Final		
Revenues								
Real property taxes	$ 8,094,664	$ 8,094,664	$ 8,061,305	$ (33,359)	$ -	$ -	$ -	$ -
Nonproperty taxes	1,830,000	1,830,000	1,969,837	139,837	-	-	-	-
Departmental income	297,850	297,850	315,450	17,600	569,107	569,107	569,437	330
Use of money and property	28,550	28,550	29,086	536	1,000	1,000	3,304	2,304
Licenses and permits	41,000	41,000	81,933	40,933	-	-	-	-
Fines and forfeitures	265,000	265,000	298,292	33,292	-	-	-	-
Miscellaneous local sources	233,520	8,120	34,672	26,552	-	-	-	-
Sale of property and compensation for loss	-	238,388	287,014	48,626	-	-	-	-
State sources	470,054	555,950	560,356	4,406	-	-	-	-
Federal sources	-	46,199	38,514	(7,685)	-	-	-	-
Total revenues	11,260,638	11,405,721	11,676,459	270,738	570,107	570,107	572,741	2,634
Expenditures								
General government	2,318,479	2,197,663	2,170,026	(27,637)	45,000	99,240	99,240	-
Public safety	3,397,046	3,361,828	3,224,030	(137,798)	-	-	-	-
Health	5,000	1,265	1,265	-	-	-	-	-
Transportation	1,356,341	1,146,253	1,145,827	(426)	-	-	-	-
Culture and recreation	464,109	464,109	433,683	(30,426)	-	-	-	-
Home and community services	986,084	1,190,659	1,179,654	(11,005)	338,205	283,965	193,195	(90,770)
Employee benefits	3,111,586	3,091,263	3,082,928	(8,335)	37,700	37,700	36,613	(1,087)
Debt service								
Principal	381,500	446,871	439,311	(7,560)	140,000	140,000	140,000	-
Interest	84,716	103,162	103,039	(123)	44,202	44,202	44,202	-
Total expenditures	12,104,861	12,003,073	11,779,763	(223,310)	605,107	605,107	513,250	(91,857)
Excess revenues (expenditures)	(844,223)	(597,352)	(103,304)	494,048	(35,000)	(35,000)	59,491	94,491
Other financing sources (uses)								
Operating transfers in	100,000	100,000	598,697	498,697	135,000	135,000	1,403,447	1,268,447
Operating transfers out	(144,000)	(390,871)	(209,372)	(181,499)	(100,000)	(100,000)	(100,000)	-
Appropriated fund balance and carryover encumbrances	888,223	888,223	-	(888,223)	-	-	-	-
Total other financing sources (uses)	844,223	597,352	389,325	(208,027)	35,000	35,000	1,303,447	1,268,447
Excess revenues (expenditures) and other financing sources (uses)	$ -	$ -	$ 286,021	$ 286,021	$ -	$ -	$ 1,362,938	$ 1,362,938

See accompanying notes.

Statement of Fiduciary Net Assets

May 31, 2011

	Agency
Assets	
Cash	$ 59,717
Liabilities	
Other agency liabilities	$ 59,717

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 chief executive officer 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, (b) grants and contributions that are restricted to meeting the operational requirements of a particular program, and (c) grants and contributions limited to the purchase or construction of specific capital assets. 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 and funds restricted for that purpose.
- *Capital projects fund.* This fund is used to report financial resources used for the acquisition, construction, or renovation of major capital facilities or equipment and funds committed or restricted for capital improvements or the acquisition of major capital assets.

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 and for funds restricted for this purpose.

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 withholdings. The agency fund is custodial in nature and does not involve measurement of results of operations.

The 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, 2010, 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	$ 11,699,170	$ 506,664
Encumbrances at May 31, 2011	218,816	6,586
Encumbrances at May 31, 2010	(138,223)	-
Budgetary basis expenditures	$ 11,779,763	$ 513,250

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.

Capital Assets

Capital assets including infrastructure are reported at actual or estimated historical cost based on appraisals. 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 associated 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 including resources for cash flow purposes. 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. 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, 2011, the Village's bank deposits were fully collaborated by FDIC coverage and securities held by the pledging institutions' trust departments or agents in the Village's name.

3. Interfund Transactions – fund financial statements

Fund	Receivable	Payable	Transfers In	Transfers Out
General	$ 498,697	$ 65,000	$ 598,697	$ 209,372
Sewer	93,447	-	1,403,447	100,000
Capital projects	25,000	552,144	209,372	1,902,144
	$ 617,144	**$ 617,144**	**$ 2,211,516**	**$ 2,211,516**

The transfer from the capital projects to the general and sewer funds reflects the closing out of a project with the remaining balances used to reimburse those funds for expenditures incurred by the respective funds in prior years. The transfers are considered permanent. Funds received in the general fund for use in the sewer and capital projects funds are transferred to those funds and are also considered permanent.

4. Capital Assets

	Balance June 1, 2010	Increases	Retirements/ Reclassifications	Balance May 31, 2011
Capital assets not being depreciated:				
Land	$ 343,221	$ -	$ -	$ 343,221
Capital assets being depreciated:				
Infrastructure	2,915,679	36,495	-	2,952,174
Buildings and improvements	5,037,032	47,273	-	5,084,305
Equipment	9,180,482	87,315	-	9,267,797
Vehicles	3,657,218	42,922	-	3,700,140
Total depreciated assets	20,790,411	214,005	-	21,004,416
Less accumulated depreciation:				
Infrastructure	184,362	90,893	-	275,255
Buildings and improvements	3,534,499	95,203	-	3,629,702
Equipment	8,376,257	167,794	-	8,544,051
Vehicles	1,568,528	251,676	-	1,820,204
Total accumulated depreciation	13,663,646	605,566	-	14,269,212
Total depreciated assets, net	7,126,765	(391,561)	-	6,735,204
	$ 7,469,986	**$ (391,561)**	**$ -**	**$ 7,078,425**

Depreciation has been allocated to the following functions: general government $96,891, transportation $102,946, home and community $48,445, culture and recreation $42,390 and public safety $314,894.

As of May 31, 2011, invested in capital assets, net of related debt consists of the following:

Capital assets, net of accumulated depreciation	$ 7,078,425
Cash restricted for capital projects	527,144
Bond issuance costs, net	22,763
Bonds and notes payable	(5,702,065)
	$ 1,926,267

5. 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.

There was no BAN outstanding at May 31, 2011 ($3,958,500 as of May 31, 2010). $3,637,000 of the outstanding BAN was replaced with permanent bond financing and the remaining amount of $321,500 was paid.

6. Long-Term Liabilities

	June 1, 2010	Increases	Decreases	May 31, 2011	Due in One Year
Bonds	$ 1,375,000	$ 3,637,000	$ 200,000	$ 4,812,000	$ 517,000
Energy performance contract	947,876	-	57,811	890,065	59,192
Police and fire retirement system	124,916	-	106,918	17,998	17,998
Compensated absences	1,721,000	-	245,000	1,476,000	330,000
Other postemployment benefits	73,949	-	22,672	51,277	-
	$ 4,242,741	**$ 3,637,000**	**$ 632,401**	**$ 7,247,340**	**$ 924,190**

Existing obligations:

Description	Maturity	Rate	Balance
Public Improvement Serial Bonds	December 2012	4.6%	$ 100,000
Public Improvement Serial Bonds	February 2016	4.5%	350,000
Public Improvement Serial Bonds	June 2024	4.2 - 5.0%	725,000
Public Improvement Serial Bonds	November 2029	3.0 - 3.8%	3,637,000
Energy performance contract	October 2023	2.4%	890,065
PFRS retirement	May 2012	8.0%	17,998
			$ 5,720,063

Debt service requirements:

Year ending May 31,	Serial Bonds Principal	Serial Bonds Interest	Retirement System Principal	Retirement System Interest
2012	$ 517,000	$ 223,036	$ 17,998	$ 1,440
2013	520,000	146,075	-	-
2014	480,000	127,200	-	-
2015	365,000	112,225	-	-
2016	350,000	99,325	-	-
2017-2021	1,275,000	343,299	-	-
2022-2026	925,000	154,125	-	-
2027-2030	380,000	24,000	-	-
	$ 4,812,000	**$ 1,229,285**	**$ 17,998**	**$ 1,440**

Lease obligations:

The Village leases various equipment under the terms of noncancelable operating leases. Rental expense for all operating leases amounted to $38,095 for the year ended May 31, 2011. The Village also entered into an energy performance contract with a finance company with future payments totaling $1,045,928 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
2012	$ 38,095	$ 59,192	$ 21,264
2013	-	60,606	19,850
2014	-	62,054	18,402
2015	-	63,537	16,919
2016	-	65,055	15,401
2017-2021	-	349,342	52,938
2022-2024	-	230,279	11,089
	$ 38,095	$ 890,065	$ 155,863

The carrying value of the related equipment under the capital lease net of accumulated amortization was $776,715 as of May 31, 2011.

7. 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 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		PFRS	
	Amount	Rate	Amount	Rate
2011	$ 283,153	9.1%-15.3%	$ 530,851	16.5%-17.5%
2010	169,153	7.0%-9.3%	402,071	14.4%
2009	197,591	8.0%-10.8%	435,879	15.0%

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

Volunteer Firemen - Length of Service Awards Program

The Village maintains 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 New York State General Municipal Law. The program provides municipally-funded deferred compensation benefits to facilitate the recruitment and retention of active volunteers. The Village is the sponsor and administrator 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. In general, an active volunteer is credited with a year of service for each calendar year after the establishment of the program in which he or she accumulates fifty or more points. Points are granted for the performance of certain activities in accordance with a system established by the Village on the basis of a statutory list of activities and point values. A participant may also receive credit for 5 years of service rendered prior to the establishment of the program.

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 number of years of service earned under the point system. 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 program provides death and disability benefits equal to the actuarial value of the participant's earned service award at the time of death or disability. The program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are self-insured and paid from the program trust fund. Volunteers who remain active after attaining the entitlement age and who may receive a service award have the opportunity to earn program credit and thereby increase their service award payments.

At the end of each calendar year, the Village prepares and certifies a list of names of all persons who were active members during that year, and denotes which members earned fifty points. The list is then delivered to the Trustees for their review and approval. The Village must maintain the point system records to verify each volunteer's points on forms provided and approved by the Trustees.

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 the 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, 2010 is as follows:

Actuarial present value of benefits at 12/31/10		$ 2,989,618
Less: Assets available for benefits		
Cash and money market funds	98,301	
U.S. equities	103,128	
International equities	208,317	
Fixed income	1,728,394	
Mixed assets	570,276	
Interest receivable	3,367	2,711,783
Add: Benefits payable		10,480
Total net assets available for benefits		2,722,263
Total unfunded benefits		267,355
Unfunded liability for prior service		(101,390)
Unfunded normal benefits		$ 165,965

The unfunded liability for prior service is being amortized over five years at a discount rate of 6.00%.

Receipts and disbursements:

Plan net assets, beginning of year		$ 2,437,335
Changes during the year		
Sponsor contributions	195,000	
Investment income	130,672	
Change in fair market value	113,398	
Investment expense	(18,662)	
Benefits paid	(134,272)	
Adminstrative expenses	(1,208)	284,928
Plan net assets, end of year		$ 2,722,263

Contributions as recommended by the actuary were $172,782. The actual contribution paid by the Village totaled $195,000 for the year ended December 31, 2010.

Administrative fees:

Fees paid to designated program administrator	$ 7,793
Fees paid for investment management	$ 18,662
Other administration fees	$ 1,208

The actuarial valuation methodology used by the actuary to determine the Village's contribution is the Attained Age Normal Frozen Initial Liability method. The assumptions used by the actuary to determine the Village's contribution and the actuarial 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 begin to receive service awards upon attainment of the entitlement age.

8. Postemployment Healthcare Benefits

The Village maintains a single-employer defined benefit healthcare plan (the Plan) providing for 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, 2011, the Village contributed $218,978 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 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, 2011:

Annual required contribution		
Normal cost	$	54,420
Amortization of unfunded actuarial accrued liability		141,464
Interest		3,697
ARC adjustment		(3,275)
		196,306
Contributions made		(218,978)
Decrease in net OPEB obligation		(22,672)
Net OPEB obligation - beginning of year		73,949
Net OPEB obligation - end of year	$	51,277

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 196,306	111.5%	$ 51,277
2010	195,884	62.2%	73,949

As of June 1, 2009, 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%.

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 trend. 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 and 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

9. Commitments and Contingencies

The Village is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of the Village.

10. 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.