# VILLAGE OF DEPEW

# FINANCIAL STATEMENTS

# MAY 31, 2012

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**May 31, 2012**

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, 2012, 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, 2012, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Village adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2012.

Accounting principles generally accepted in the United States of America require that 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

November 9, 2012

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# Village of Depew
# Management's Discussion and Analysis
# May 31, 2012
# (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, 2012. The information contained in the MD&A should be considered in conjunction with the information presented as part of the Village's financial statements that follow. This MD&A, the financial statements and notes thereto 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. As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the Village classifies fund balances into five categories to better display resources available for future appropriation: nonspendable, restricted, committed, assigned and unassigned. The 2011 comparative columns were reclassified to be consistent with the 2012 presentation. 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 | 2012 | 2011 (As Restated) |
| --- | --- | --- |
| Current and other assets | $ 3,744,000 | $ 4,067,000 |
| Capital assets | 6,616,000 | 7,078,000 |
| Total assets | 10,360,000 | 11,145,000 |
| Long-term liabilities outstanding | 6,670,000 | 7,247,000 |
| Other liabilities | 608,000 | 605,000 |
| Total liabilities | 7,278,000 | 7,852,000 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 1,511,000 | 1,399,000 |
| Restricted | 409,000 | 668,000 |
| Unrestricted | 1,162,000 | 1,226,000 |
| Total net assets | $ 3,082,000 | $ 3,293,000 |

Assets exceeded liabilities by $3,082,000 ($3,293,000 in 2011) at the close of the year. Capital assets (infrastructure, buildings, improvements, vehicles and equipment) represent 63.9% (63.5% in 2011) 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 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.

Current and other assets decreased by $323,000 or 7.9% ($62,000 or 1.5% in 2011). These balances consist of cash and receivables from other governments and third parties. The decrease in current and other assets is the direct result of the impact of the Village's current year operating results. Long-term liabilities decreased by $577,000 or 8.0% (increase of $3,004,000 or 70.8% in 2011) resulting from required payments on outstanding debt as compared to a serial bond issuance in 2011 of $3,637,000. Compensated absences, which is the estimated dollar value of employees' accumulated vacation and sick time, increased by $57,000 resulting in an estimated balance of $1,533,000. Other liabilities remained consistent with the prior year.

The Village's unfunded actuarial accrued liability as of May 31, 2012 pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* is estimated to be $3,101,000 which is amortized over a 30 year period.

| **Condensed Statement of Activities** | **2012** | **2011** |
|---|---|---|
| **Revenues** | | |
| Program revenues | | |
| Charges for services | $ 948,000 | $ 842,000 |
| Operating grants and contributions | 535,000 | 620,000 |
| Capital grants and contributions | 203,000 | 239,000 |
| General revenues | | |
| Property, sales and franchise taxes | 11,013,000 | 10,600,000 |
| Other | 151,000 | 189,000 |
| Total revenues | 12,850,000 | 12,490,000 |
| | | |
| **Expenses** | | |
| Support services | | |
| General government | 2,631,000 | 2,795,000 |
| Public safety | 5,464,000 | 4,943,000 |
| Health | 2,000 | 1,000 |
| Transportation | 2,089,000 | 1,978,000 |
| Economic assistance and opportunity | 7,000 | - |
| Culture and recreation | 787,000 | 657,000 |
| Home and community services | 1,884,000 | 1,622,000 |
| Interest expense | 197,000 | 167,000 |
| Total expenses | 13,061,000 | 12,163,000 |
| | | |
| Change in net assets | (211,000) | 327,000 |
| | | |
| Net assets-beginning of year | 3,293,000 | 2,966,000 |
| Net assets-end of year | $ 3,082,000 | $ 3,293,000 |

Total revenues increased by $360,000 or 2.9% (a decrease of $66,000 or .5% in 2011). Village property, sales and franchise taxes for the year ended May 31, 2012 account for 85.7% (84.9% in 2011) of the Village's total revenues and increased by $413,000 or 3.9% ($46,000 or .5% in 2011). Property taxes increased by $402,000 or 4.7% ($6,000 increase in 2011) due to a 3.9% budgeted increase in the tax levy as well as a $25,000 or 11.1% increase received from companies through payments in lieu of taxes.

Total expenses increased $898,000 or 7.4% ($120,000 or 1.0% in 2011) with public safety representing 41.8% (40.6% in 2011) of total expenses. Public safety expenses include the Village's police and volunteer fire departments and expenses increased by $521,000 or 10.5% (decrease of $92,000 or 1.8% in 2011). Approximately $200,000 of this amount was due to the increase in employee benefits. In 2011, a decrease in compensated absences of $245,000 was allocated to the expense categories with $169,000 of the decrease allocated to public safety. There was no such decrease in 2012 as previously mentioned compensated absences increased slightly.

General government expenses decreased by $164,000 or 5.9% (an increase of $478,000 or 20.6% in 2011). The decrease in general support is the result of lower heating costs due to a milder winter and fewer repairs required on equipment. These decreases were offset by the increase in the allocation of employee benefits noted above. Overall expense increases are directly related to higher payroll, increased contributions to the New York State and Local Employees' Retirement System, higher worker's compensation insurance and greater health insurance costs.

## Financial Analysis of the Village's Funds

Total fund balances for the governmental funds decreased by $373,000 to a balance of $3,160,000 ($3,533,000 in 2011) as further described below:

- The increase in property taxes noted previously was offset by decreases in fines and forfeitures and funds received from federal and state sources. Total fund revenue increased by $360,000 or 2.9% (decrease of $68,000 or .5% in 2011) compared to the increase in total fund expenditures of $517,000 or 4.1% ($562,000 or 4.6% in 2011).
- The largest increase in expenditures was in employee benefits which increased by $336,000 or 10.8% ($397,000 or 14.6% in 2011). Workers' compensation expenditures increased due to an increase in claims which also increased rates. Employer contributions to the Employees' and Police and Fire Retirement Systems also increased due to rate increases mandated by New York State. Health insurance costs also increased due to an increase in rates charged and employees converting single coverage to family coverage.

## General Fund Budgetary Highlights

The revised general fund revenue budget for fiscal year 2012 was $11,788,000. Actual revenues (before other financing sources) were greater than budgeted revenues by $282,000, with the largest variance in non-property taxes with actual revenue exceeding the budgeted amount by $150,000 and actual licenses and permits exceeding budget by $125,000.

Total expenditures including carryover encumbrances were $373,000 under budget (before other financing uses). Controls on spending by department heads contributed to actual expenditures less than budgeted across all departments and functional categories.

## Capital Assets

| | 2012 | 2011 |
|---|---|---|
| Land | $ 343,000 | $ 343,000 |
| Infrastructure | 2,952,000 | 2,952,000 |
| Buildings and improvements | 5,084,000 | 5,084,000 |
| Equipment | 9,356,000 | 9,268,000 |
| Vehicles | 3,707,000 | 3,700,000 |
| | 21,442,000 | 21,347,000 |
| Accumulated depreciation | (14,826,000) | (14,269,000) |
| | $ 6,616,000 | $ 7,078,000 |

Net capital assets decreased by $462,000 from the beginning of the year. Total assets additions of $126,000 were offset by depreciation expense of $588,000.

## Debt Administration

At May 31, 2012, the Village had $4,295,000 in bonds outstanding, with $520,000 due within one year ($4,812,000 outstanding in 2011). The Village's energy performance contract liability amounted to $831,000 with $61,000 due within one year ($890,000 outstanding in 2011). Outstanding compensated absences payable were $1,533,000 with $345,000 expected to be paid during the next year ($1,476,000 outstanding in 2011).

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. These factors will have an impact on the programs the Village offers and the amount of funds it will need to provide services. The property tax levy cap will further stretch resources.

The Village Trustees have given attention to the rate of growth for both residential and commercial properties and the Trustees are committed to attracting new commercial business to the area.

**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, 2012**

**(with comparative totals as of May 31, 2011)**

| | **2012** | 2011 (As Restated) |
|---|---|---|
| **Assets** | | |
| Cash | $ 3,117,725 | $ 3,491,236 |
| Due from other governments | 483,380 | 516,730 |
| Accounts receivable | 35,039 | 35,910 |
| Due from fiduciary fund | 86,579 | - |
| Bond issuance costs, net | 21,023 | 22,763 |
| Capital assets (Note 5) | 21,441,704 | 21,347,637 |
| Accumulated depreciation | (14,825,581) | (14,269,212) |
| **Total assets** | 10,359,869 | 11,145,064 |
| **Liabilities** | | |
| Accounts payable | 228,901 | 217,887 |
| Accrued liabilities | 379,183 | 387,019 |
| Long-term liabilities | | |
| Due within one year | | |
| Bonds and notes | 580,606 | 576,192 |
| Compensated absences | 345,000 | 330,000 |
| Police and fire retirement system | - | 17,998 |
| Due beyond one year | | |
| Bonds and notes | 4,545,267 | 5,125,873 |
| Compensated absences | 1,188,000 | 1,146,000 |
| Other postemployment benefits | 11,426 | 51,277 |
| **Total liabilities** | 7,278,383 | 7,852,246 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 1,511,273 | 1,399,123 |
| Restricted | 408,207 | 667,976 |
| Unrestricted | 1,162,006 | 1,225,719 |
| **Total net assets** | $ 3,081,486 | $ 3,292,818 |

*See accompanying notes.*

## Statement of Activities and Changes in Net Assets

### For the year ended May 31, 2012
**(with summarized comparative totals for May 31, 2011)**

| | | Program Revenues | | | Net (Expense) Revenue | |
|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | 2012 | 2011 |
| **Governmental activities** | | | | | | |
| General government | $ 2,631,109 | $ 5,691 | $ 310,748 | $ - | $ (2,314,670) | $ (2,422,815) |
| Public safety | 5,464,020 | 443,097 | 222,087 | - | (4,798,836) | (4,313,318) |
| Health | 1,840 | 2,359 | - | - | 519 | 1,574 |
| Transportation | 2,089,283 | - | - | - | (2,089,283) | (1,977,927) |
| Economic assistance and opportunity | 6,438 | - | - | - | (6,438) | (450) |
| Culture and recreation | 787,343 | 333,025 | 2,353 | - | (451,965) | (362,104) |
| Home and community services | 1,884,009 | 163,710 | - | 202,692 | (1,517,607) | (1,220,419) |
| Interest expense | 197,253 | - | - | - | (197,253) | (167,459) |
| | $ 13,061,295 | $ 947,882 | $ 535,188 | $ 202,692 | (11,375,533) | (10,462,918) |
| **General revenues** | | | | | | |
| Property, sales and franchise taxes | | | | | 11,012,831 | 10,600,579 |
| Other | | | | | 151,370 | 188,738 |
| **Total general revenues** | | | | | 11,164,201 | 10,789,317 |
| **Change in net assets** | | | | | (211,332) | 326,399 |
| **Net assets - beginning** | | | | | 3,292,818 | 2,966,419 |
| **Net assets - ending** | | | | | $ 3,081,486 | $ 3,292,818 |

*See accompanying notes.*

## Balance Sheet - Governmental Funds

**May 31, 2012**
**(with summarized comparative totals for May 31, 2011)**

| | Major | | Non-Major | | Total Governmental Funds | |
|---|---|---|---|---|---|---|
| | General | Capital Projects | Sewer | Community Development | 2012 | 2011 (As Restated) |
| **Assets** | | | | | | |
| Cash | $ 2,286,980 | $ 528,469 | $ 302,276 | $ - | $ 3,117,725 | $ 3,491,236 |
| Due from other governments | 483,380 | - | - | - | 483,380 | 516,730 |
| Accounts receivable | 35,039 | - | - | - | 35,039 | 35,910 |
| Due from other funds, net | 504,436 | - | 110,612 | - | 615,048 | 527,144 |
| **Total assets** | $ 3,309,835 | $ 528,469 | $ 412,888 | $ - | $ 4,251,192 | $ 4,571,020 |
| **Liabilities and Fund Balances** | | | | | | |
| Accounts payable | $ 228,901 | $ - | $ - | $ - | $ 228,901 | $ 217,887 |
| Accrued liabilities | 329,084 | - | 4,681 | - | 333,765 | 292,814 |
| Due to other funds, net | - | 528,469 | - | - | 528,469 | 527,144 |
| **Total liabilities** | 557,985 | 528,469 | 4,681 | - | 1,091,135 | 1,037,845 |
| **Fund Balances** | | | | | | |
| Restricted: | | | | | | |
| Sewer | - | - | 408,207 | - | 408,207 | 667,976 |
| Assigned: | | | | | | |
| Subsequent year's expenditures | 825,000 | - | - | - | 825,000 | 700,000 |
| Other purposes | 190,207 | - | - | - | 190,207 | 218,816 |
| Unassigned | 1,736,643 | - | - | - | 1,736,643 | 1,946,383 |
| **Total fund balances** | 2,751,850 | - | 408,207 | - | 3,160,057 | 3,533,175 |
| **Total liabilities and fund balances** | $ 3,309,835 | $ 528,469 | $ 412,888 | $ - | $ 4,251,192 | $ 4,571,020 |

*See accompanying notes.*

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

## May 31, 2012

| | | |
|---|---|---|
| **Total fund balances - governmental funds** | | $ 3,160,057 |
| 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 therefore are not reported as assets in governmental funds. | | 6,616,123 |
| 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 | (5,125,873) | |
| Accrued interest | (45,418) | |
| Compensated absences | (1,533,000) | |
| Other postemployment benefits | (11,426) | (6,715,717) |
| 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. | | 21,023 |
| **Net assets - governmental activities** | | $ 3,081,486 |

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

### For the year ended May 31, 2012
**(with summarized comparative totals for May 31, 2011)**

| | Major | | Non-Major | | Total | |
|---|---|---|---|---|---|---|
| | | Capital | | Community | Governmental Funds | |
| | General | Projects | Sewer | Development | 2012 | 2011 |
| **Revenues** | | | | | | |
| Real property taxes | $ 8,458,010 | $ - | $ 574,885 | $ - | $ 9,032,895 | $ 8,630,742 |
| Nonproperty taxes | 1,979,936 | - | - | - | 1,979,936 | 1,969,837 |
| Departmental income | 353,809 | - | - | - | 353,809 | 315,450 |
| Use of money and property | 18,112 | - | 2,715 | - | 20,827 | 34,536 |
| Interfund revenue | 225,000 | - | - | - | 225,000 | - |
| Licenses and permits | 180,379 | - | - | - | 180,379 | 81,933 |
| Fines and forfeitures | 261,053 | - | - | - | 261,053 | 298,292 |
| Miscellaneous local sources | 9,771 | - | - | - | 9,771 | 34,672 |
| Sale of property and compensation for loss | 284,483 | - | - | - | 284,483 | 287,014 |
| State sources | 523,054 | - | - | - | 523,054 | 560,356 |
| Federal sources | 1,064 | - | - | 202,692 | 203,756 | 277,048 |
| **Total revenues** | 12,294,671 | - | 577,600 | 202,692 | 13,074,963 | 12,489,880 |
| **Expenditures** | | | | | | |
| General government | 1,996,308 | - | - | - | 1,996,308 | 2,241,712 |
| Public safety | 3,303,133 | - | - | 41,060 | 3,344,193 | 3,270,188 |
| Health | 1,840 | - | - | - | 1,840 | 1,265 |
| Transportation | 1,357,639 | - | - | 169,361 | 1,527,000 | 1,473,096 |
| Economic assistance and opportunity | - | - | - | 6,438 | 6,438 | 450 |
| Culture and recreation | 503,689 | - | - | 18,847 | 522,536 | 493,097 |
| Home and community services | 1,249,365 | - | 523,215 | - | 1,772,580 | 1,378,872 |
| Employee benefits | 3,410,678 | - | 46,016 | - | 3,456,694 | 3,120,371 |
| Debt service | | | | | | |
| Principal | 436,192 | - | 140,000 | - | 576,192 | 579,311 |
| Interest | 116,162 | - | 128,138 | - | 244,300 | 147,241 |
| **Total expenditures** | 12,375,006 | - | 837,369 | 235,706 | 13,448,081 | 12,705,603 |
| **Excess expenditures** | (80,335) | - | (259,769) | (33,014) | (373,118) | (215,723) |
| **Other financings sources (uses)** | | | | | | |
| Proceeds from issuance of serial bonds | - | - | - | - | - | 3,637,000 |
| BANs redeemed from appropriations | - | - | - | - | - | 321,500 |
| Operating transfers, net | (33,014) | - | - | 33,014 | - | - |
| **Total other financing sources (uses)** | (33,014) | - | - | 33,014 | - | 3,958,500 |
| **Net change in fund balances** | (113,349) | - | (259,769) | - | (373,118) | 3,742,777 |
| **Fund balances (deficit) - beginning** | 2,865,199 | - | 667,976 | - | 3,533,175 | (209,602) |
| **Fund balances - ending** | $ 2,751,850 | $ - | $ 408,207 | $ - | $ 3,160,057 | $ 3,533,175 |

*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, 2012

| | | |
|---|---|---|
| **Total net change in fund balances - governmental funds** | | $ (373,118) |
| 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. | | (462,302) |
| 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 | 576,192 | |
| Retirement system payments | 17,998 | 594,190 |
| 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 | (57,000) | |
| Other postemployment benefits | 39,851 | |
| Interest | 48,787 | 29,898 |
| **Change in net assets - governmental activities** | | $ (211,332) |

*See accompanying notes.*

## Statement of Major Funds Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP) and Actual

### For the year ended May 31, 2012

| | General Fund | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance with Final Budget Over/(Under) |
| | Original | Final | | |
| **Revenues** | | | | |
| Real property taxes | $ 8,464,594 | $ 8,464,594 | $ 8,458,010 | $ (6,584) |
| Nonproperty taxes | 1,830,000 | 1,830,000 | 1,979,936 | 149,936 |
| Departmental income | 332,800 | 332,800 | 353,809 | 21,009 |
| Use of money and property | 21,050 | 21,050 | 18,112 | (2,938) |
| Interfund revenue | - | - | 225,000 | 225,000 |
| Licenses and permits | 55,000 | 55,000 | 180,379 | 125,379 |
| Fines and forfeitures | 265,000 | 265,000 | 261,053 | (3,947) |
| Miscellaneous local sources | 243,520 | 6,520 | 9,771 | 3,251 |
| Sale of property and compensation for loss | - | 281,813 | 284,483 | 2,670 |
| State sources | 528,280 | 531,211 | 523,054 | (8,157) |
| Federal sources | - | - | 1,064 | 1,064 |
| **Total revenues** | 11,740,244 | 11,787,988 | 12,294,671 | 506,683 |
| **Expenditures** | | | | |
| General government | 2,307,348 | 2,151,927 | 2,026,939 | (124,988) |
| Public safety | 3,413,280 | 3,293,328 | 3,291,357 | (1,971) |
| Health | 5,000 | 2,315 | 1,840 | (475) |
| Transportation | 1,315,502 | 1,336,994 | 1,335,185 | (1,809) |
| Culture and recreation | 475,715 | 517,077 | 483,929 | (33,148) |
| Home and community services | 1,151,834 | 1,264,389 | 1,244,115 | (20,274) |
| Employee benefits | 3,532,033 | 3,599,039 | 3,410,678 | (188,361) |
| Debt service | | | | |
| Principal | 377,000 | 437,852 | 436,192 | (1,660) |
| Interest | 97,348 | 116,952 | 116,162 | (790) |
| **Total expenditures** | 12,675,060 | 12,719,873 | 12,346,397 | (373,476) |
| **Excess expenditures** | (934,816) | (931,885) | (51,726) | 880,159 |
| **Other financing sources (uses)** | | | | |
| Operating transfers in | 225,000 | 225,000 | - | (225,000) |
| Operating transfers out | (209,000) | (211,931) | (33,014) | (178,917) |
| Appropriated fund balance and carryover encumbrances | 918,816 | 918,816 | - | (918,816) |
| **Total other financing sources (uses)** | 934,816 | 931,885 | (33,014) | (964,899) |
| **Excess expenditures and other financing sources (uses)** | $ - | $ - | $ (84,740) | $ (84,740) |

*See accompanying notes.*

## Statement of Fiduciary Net Assets

### May 31, 2012

| | | Agency |
|---|---|---|
| **Assets** | | |
| Cash | $ | 125,230 |
| **Liabilities** | | |
| Due to governmental funds | $ | 86,579 |
| Agency liabilities | | 38,651 |
| | $ | 125,230 |

*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, recreation, and community development. The financial reporting entity includes all funds, 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 has no component units as defined by GASB Statement 14 as amended by GASB Statement 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 based on 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 fund is the Village's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.
- *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 funds:

- *Sewer fund.* This fund is used to account for the operations and support restricted to the infrastructure and operations of the Village's sewer system.
- *Community development fund.* This is a special revenue fund used to account for financial resources and expenditures restricted and/or committed for specific economic development activities and restrictions placed by grantors.

The Village reports the following fiduciary fund:

- *Agency fund.* This fund accounts for assets held by the Village as agent for payroll and employee third party 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, 2011, from which the summarized information was derived. Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

**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
- July 1 – Real property tax due; late payments are charged a 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 Encumbrances**

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.

Annual appropriations are adopted and employed for control of the general, sewer and community development funds. These budgets are adopted under the modified accrual basis of accounting. 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 restricted, committed and assigned fund balances and subsequent budget amendments approved by the Village Board as a result of new revenue sources not included in the original budget.

Major capital expenditures are subject to individual project budgets 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. Capital projects fund budgets do not lapse at year end and are carried over to the completion of the project.

Encumbrance accounting is used to assure effective budgetary control. Encumbrances represent commitments related to unperformed (executory) contracts for goods or services. Amounts outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed. Encumbrances are reflected as a budgetary expenditure in the year of incurrence of the commitment for the purchase and in the subsequent period when the expenditure is paid. All budget appropriations that are unencumbered lapse at the end of the fiscal year. Encumbrances outstanding at year end are presented for GAAP-related purposes as committed or assigned fund balances and do not constitute expenditures or liabilities. At June 1, encumbrances carried forward from the prior year are reestablished as budgeted appropriations.

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

| | General | Sewer |
|---|---|---|
| GAAP basis expenditures | $ 12,375,006 | $ 612,369 |
| Encumbrances at May 31, 2012 | 190,207 | 100 |
| Encumbrances at May 31, 2011 | (218,816) | (6,586) |
| Budgetary basis expenditures | $ 12,346,397 | $ 605,883 |

**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 |

**Bond Issuance Costs**

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 financial statements consists of unpaid accumulated 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 with employee groups 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 required by terms 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.

### Governmental fund statements

The Village considers unrestricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, unless the use of the restricted amount was appropriated in the current year's budget. Within unrestricted fund balance, the Village considers committed, assigned, then unassigned resources to have been spent when an expenditure is incurred for which amounts in any of those fund balance classifications could be used.

Restricted fund balances and net assets may include reserves created by the State of New York Legislature and included in General Municipal Law, as authorized for use by the Village Board. Restricted fund balances also represent residual balances of resources in special revenue funds whose revenue sources are restricted for expenditures of that fund.

The Village Board approves commitments of fund balance when needed and as recommended by the Village's management prior to the end of the year. Funding of the commitment may be established subsequent to year end. Assigned fund balances include the planned use of existing fund balance to offset the subsequent year's tax levy provided that it does not result in a deficit unassigned fund balance. Additionally, the Village Board has given management the authority to assign fund balances for specific purposes that are neither restricted nor committed. Nonspendable fund balances, when applicable, are used to display resources that cannot be spent as they are not expected to be converted to cash.

## Interfund Transfers

The operations of the Village include transactions between funds. The Village typically provides 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 funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to fiduciary funds.

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, 2012, the Village adopted GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This pronouncement requires the Village to classify fund balance into five distinctive categories: nonspendable, restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent including policy disclosure on how amounts in these categories are considered spent. Fund balance amounts in the financial statements for 2011 have been restated to conform to the 2012 presentation.

## 3. 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, 2012, the Village's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institutions' trust departments or agents in the Village's name.

## 4. Interfund Transactions – fund financial statements

| Fund | Receivable | Payable | Transfers In | Transfers Out |
|---|---|---|---|---|
| General | $ 561,601 | $ 57,165 | $ - | $ 33,014 |
| Sewer | 110,612 | - | - | - |
| Capital projects | - | 528,469 | - | - |
| Community development | - | - | 33,014 | - |
| Fiduciary | - | 86,579 | - | - |
| | **$ 672,213** | **$ 672,213** | **$ 33,014** | **$ 33,014** |

Amounts due to the general fund from the capital projects fund reflect cash maintained by the capital projects fund for future projects. The amount owed to the general fund from trust and agency represents timing of employee withholdings and their related settlement with third parties. Amounts owed to the sewer fund from the general and capital projects funds were to assist with cash flow and will be relieved in the upcoming year. The transfer from the general to the community development fund is to record the general fund's portion of a project expenditure and is considered to be permanent.

## 5. Capital Assets

| | June 1, 2011 | Increases | Retirements/ Reclassifications | May 31, 2012 |
|---|---|---|---|---|
| Non-depreciable capital assets: | | | | |
| Land | $ 343,221 | $ - | $ - | $ 343,221 |
| Depreciable capital assets: | | | | |
| Infrastructure | 2,952,174 | | - | 2,952,174 |
| Buildings and improvements | 5,084,305 | | - | 5,084,305 |
| Equipment | 9,267,797 | 87,854 | - | 9,355,651 |
| Vehicles | 3,700,140 | 38,213 | (32,000) | 3,706,353 |
| Total depreciable assets | 21,004,416 | 126,067 | (32,000) | 21,098,483 |
| Less accumulated depreciation: | | | | |
| Infrastructure | 275,255 | 91,387 | - | 366,642 |
| Buildings and improvements | 3,629,702 | 97,255 | - | 3,726,957 |
| Equipment | 8,544,051 | 365,083 | - | 8,909,134 |
| Vehicles | 1,820,204 | 34,644 | (32,000) | 1,822,848 |
| Total accumulated depreciation | 14,269,212 | 588,369 | (32,000) | 14,825,581 |
| Total depreciable assets, net | 6,735,204 | (462,302) | - | 6,272,902 |
| | **$ 7,078,425** | **$ (462,302)** | **$ -** | **$ 6,616,123** |

Depreciation expense has been allocated to the following functions: general government $78,547, transportation $95,492, home and community $60,014, culture and recreation $39,539 and public safety $314,777.

As of May 31, 2012, invested in capital assets, net of related debt consists of the following:

| | |
|---|---|
| Capital assets, net of accumulated depreciation | $ 6,616,123 |
| Bond issuance costs, net | 21,023 |
| Bonds and notes payable | (5,125,873) |
| | $ 1,511,273 |

## 6. Long-Term Liabilities

| | June 1, 2011 | Increases | Decreases | May 31, 2012 | Amount Due in One Year |
|---|---|---|---|---|---|
| Bonds | $ 4,812,000 | $ - | $ 517,000 | $ 4,295,000 | $ 520,000 |
| Energy performance contract | 890,065 | - | 59,192 | 830,873 | 60,606 |
| Police and fire retirement system | 17,998 | - | 17,998 | - | - |
| Compensated absences | 1,476,000 | 57,000 | - | 1,533,000 | 345,000 |
| Other postemployment benefits | 51,277 | 196,177 | 236,028 | 11,426 | - |
| | **$ 7,247,340** | **$ 253,177** | **$ 830,218** | **$ 6,670,299** | **$ 925,606** |

**Existing obligations:**

| Description | Maturity | Rate | Balance |
|---|---|---|---|
| Public Improvement Serial Bonds | December 2012 | 4.6% | $ 50,000 |
| Public Improvement Serial Bonds | February 2016 | 4.5% | 280,000 |
| Public Improvement Serial Bonds | June 2024 | 4.2 - 5.0% | 650,000 |
| Public Improvement Serial Bonds | November 2029 | 3.0 - 3.8% | 3,315,000 |
| Energy performance contract | October 2023 | 2.4% | 830,873 |
| | | | **$ 5,125,873** |

**Debt service requirements:**

| | Bonds | |
|---|---|---|
| **Year ending May 31,** | **Principal** | **Interest** |
| 2013 | $ 520,000 | $ 146,075 |
| 2014 | 480,000 | 127,200 |
| 2015 | 365,000 | 112,225 |
| 2016 | 350,000 | 99,325 |
| 2017 | 285,000 | 86,674 |
| 2018-2022 | 1,200,000 | 301,475 |
| 2023-2027 | 870,000 | 120,619 |
| 2028-2030 | 225,000 | 12,656 |
| | **$ 4,295,000** | **$ 1,006,249** |

**Lease obligations:**

The Village leases various equipment under the terms of noncancelable operating leases. Rental expense for all operating leases amounted to $26,924 for the year ended May 31, 2012. The Village has an energy performance contract with a finance company requiring future payments totaling $965,472 which is accounted for as a capital lease with annual payments of $80,456. Future minimum rentals to be paid for all leases are:

| Years ending | | Capital | |
|---|---|---|---|
| **May 31,** | **Operating** | **Principal** | **Interest** |
| 2013 | $ 26,924 | $ 60,606 | $ 19,850 |
| 2014 | - | 62,054 | 18,402 |
| 2015 | - | 63,537 | 16,919 |
| 2016 | - | 65,055 | 15,401 |
| 2017 | - | 66,609 | 13,847 |
| 2018-2022 | - | 357,688 | 44,592 |
| 2023-2024 | - | 155,324 | 5,588 |
| | $ 26,924 | $ 830,873 | $ 134,599 |

The carrying value of the related equipment under the capital lease net of accumulated amortization was $714,578 as of May 31, 2012.

## 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 provide retirement benefits as well as death and disability benefits. 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 from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

No employee contribution is required for those hired prior to July 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership in the Systems. Participants hired on or after April 1, 2012 are required to contribute 3% of compensation through March 31, 2013. Beginning April 1, 2013, these participants will contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, 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 |
| 2012 | $ 398,085 | 12.7%-21.5% | $ 426,439 | 20.3%-21.2% |
| 2011 | 283,153 | 9.1%-15.3% | 530,851 | 16.5%-17.5% |
| 2010 | 169,153 | 7.0%-9.3% | 402,071 | 14.4% |

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

**Length of Service Award Program**

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

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 members age 18 and older who have completed one year of service are eligible to participate in the plan. 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 plan.

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 plan 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 plan 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 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 plan, RBC Wealth Management to provide investment management and custodial services and Comerica Bank to pay benefits to participants.

Plan 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 plan's operation and administration. The Village maintains a Service Award Program Trust Fund document 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, 2011 is as follows:

| | | |
|---|---|---|
| Actuarial present value of benefits at 12/31/11 | | $ 3,163,684 |
| Less: Assets available for benefits | | |
| Cash and money market funds | 194,146 | |
| U.S. equities | 114,366 | |
| International equities | 124,678 | |
| Fixed income | 1,656,487 | |
| Mixed assets | 678,279 | |
| Interest receivable | 1,116 | 2,769,072 |
| Add: Benefits payable | | 11,640 |
| Total net assets available for benefits | | 2,780,712 |
| Total unfunded benefits | | 382,972 |
| Unfunded liability for prior service | | (118,338) |
| Unfunded normal benefits | | $ 264,634 |

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 | | $ 2,722,263 |
| Changes during the year | | |
| Sponsor contributions | 195,000 | |
| Investment income | 156,124 | |
| Change in fair market value | (135,660) | |
| Investment expense | (20,904) | |
| Benefits paid | (134,900) | |
| Adminstrative expenses | (1,211) | 58,449 |
| Plan net assets, end of year | | $ 2,780,712 |

Contributions as recommended by the actuary were $143,305. The actual contribution paid by the Village totaled $195,000 for the year ended December 31, 2011.

Administrative fees:

| | |
|---|---|
| Fees paid to designated program administrator (paid by the Village) | $ 6,557 |
| Fees paid for investment management | $ 20,904 |
| Other administration fees | $ 1,211 |

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 their 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 and are over 55 (50 for police) and 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, 2012, the Village contributed $236,028 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) which 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 also includes 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, 2012:

| | |
|---|---|
| Annual required contribution | |
| Normal cost | $ 54,420 |
| Amortization of unfunded actuarial accrued liability | 141,464 |
| Interest | 2,564 |
| ARC adjustment | (2,271) |
| | 196,177 |
| Contributions made | (236,028) |
| Decrease in net OPEB obligation | (39,851) |
| Net OPEB obligation - beginning of year | 51,277 |
| Net OPEB obligation - end of year | $ 11,426 |

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 |
|---|---|---|---|
| 2012 | $ 196,177 | 120.3% | $ 11,426 |
| 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 are 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.

Projection 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 50 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

***Discount rate*** – 5%

***Salary Scale*** – 4%

***Amortization method*** – 30 years level percent of pay, open group

**9. Commitments and Contingencies**

Significant outstanding encumbrances in the general fund as of May 31, 2012 include $129,000 for equipment and $30,000 for supplies.

**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.

**11. Subsequent Event**

In August, the Village issued a $2,500,000 bond anticipation note (BAN) with an interest rate of 1.25% maturing August 2013.