

**TOWN OF LANCASTER,
NEW YORK**

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

TOWN OF LANCASTER, NEW YORK
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Town Board
Town of Lancaster, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Lancaster, New York (the "Town") as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 aggregate remaining fund information of the Town as of December 31, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the General, Police, Highway—Town Outside Village and Fire Protection District Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dresser & Malecki LLP

May 17, 2012

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

As management of the Town of Lancaster, New York (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2011. This document should be read in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- ◆ The assets of the primary government of the Town exceeded its liabilities at the close of the fiscal year by \$49,383,460 (net assets). Of this amount, \$2,363,982 (unrestricted net assets) may be used to meet the Town's ongoing operations.
- ◆ The Town's Governmental Activities net assets increased \$2,829,706 as a result of this year's activity.
- ◆ At the close of the current fiscal year, the Town's governmental funds reported combined ending fund deficit of \$3,364,438 an improvement of \$690,002 in comparison with the prior year's fund deficit of \$4,054,440. Excluding the Capital Projects Fund, the Town's governmental funds combined ending fund balances totaled \$6,559,876. The Capital Projects Fund reported a deficit of \$9,924,314. This deficit is temporary in nature and is expected to be remedied when the Town converts its short-term financing into long-term bonds.
- ◆ The General Fund reported a net increase in fund balance this year of \$182,009. At December 31, 2011, unassigned fund balance for the General Fund was \$1,053,721, or 14.5 percent of General Fund expenditures.
- ◆ The Town's total bonded indebtedness decreased by \$870,000. During the current year, the Town made scheduled debt payments due and issued no additional bonds. The Town's bond anticipation note debt decreased by \$690,000 during 2011 as a result of decreased capital project needs and budgeted principal redemption.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying

event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, transportation, health, culture and recreation and home and community services.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town's funds can be divided into three categories, governmental funds, proprietary funds and fiduciary funds, which are described as follows:

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

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

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

The Town adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16-23 of this report.

Proprietary funds. The Town maintains an internal service fund to account for the operation of its self-insured programs. Because these services benefit only governmental type activities they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town’s own programs. The Town has one fiduciary fund, the Agency Fund, which is used to account for funds held by the Town as an agent for employees’ withholdings, monies due to other governments, and other miscellaneous items.

The fiduciary fund financial statements can be found on page 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-48 of this report.

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

The supplemental financial statements can be found following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets exceeded liabilities by \$49,383,460 at the close of the 2011 fiscal year, as compared to \$46,553,754 at the close of the 2010 fiscal year.

Table 1 – Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>
Current assets	\$ 10,677,519	\$ 10,581,471
Capital assets	<u>58,555,946</u>	<u>57,099,162</u>
Total assets	<u>69,233,465</u>	<u>67,680,633</u>
Current liabilities	13,433,860	14,296,708
Long-term liabilities	<u>6,416,145</u>	<u>6,830,171</u>
Total liabilities	<u>19,850,005</u>	<u>21,126,879</u>
Invested in capital assets, net of related debt	46,698,632	44,725,763
Restricted	320,846	329,537
Unrestricted	<u>2,363,982</u>	<u>1,498,454</u>
Total net assets	<u>\$ 49,383,460</u>	<u>\$ 46,553,754</u>

The largest portion of the Town’s net assets (94.6 percent) reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town’s net assets (4.8 percent) represents resources that may be used to meet the Town’s ongoing obligations to citizens and creditors. The remaining balance of net assets (0.6 percent) are subject to external restrictions on how they may be used.

Presented below, in Figure 1, is a comparison of the components of the Town’s total net assets for the years ended December 31, 2011 and December 31, 2010:

Figure 1 – Components of Net Assets

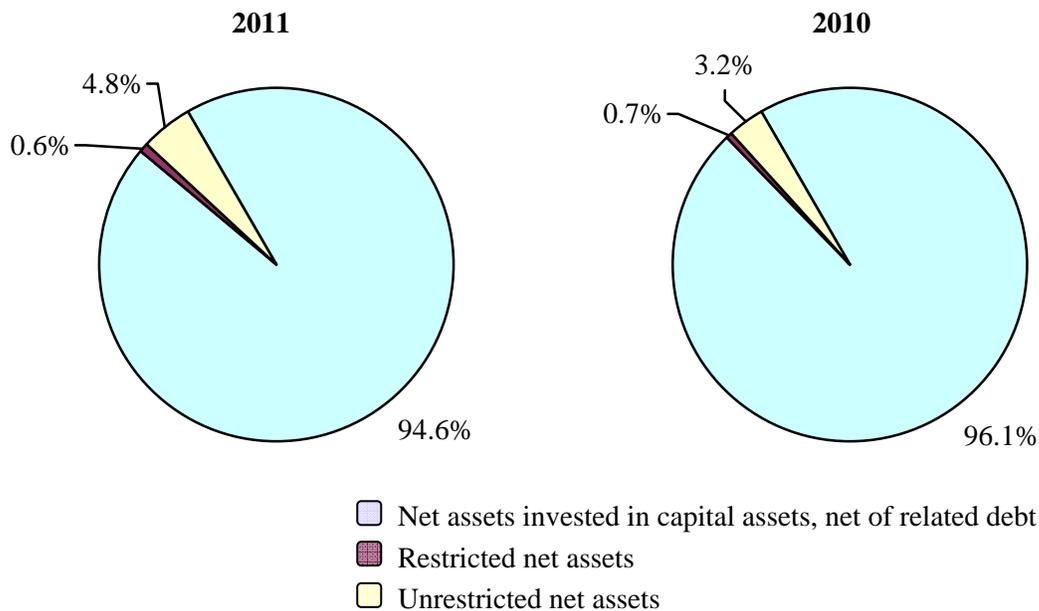


Table 2, shown below, presents a comparison of current assets to current liabilities at December 31, 2011 and December 31, 2010:

Table 2 – Current assets and current liabilities

	<u>2011</u>	<u>2010</u>
Current assets	\$10,677,519	\$10,581,471
Current liabilities	13,433,860	14,296,708
Ratio of current assets to current liabilities	0.79	0.74

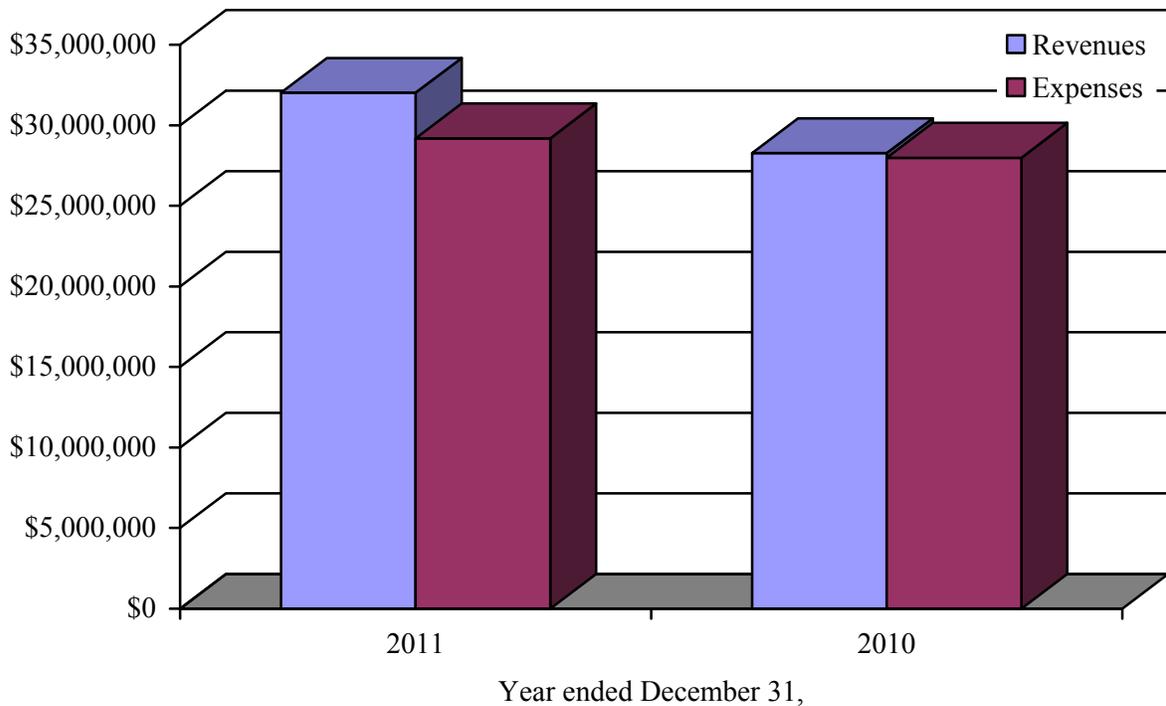
Table 3, as presented below, shows the changes in net assets for the years ended December 31, 2011 and December 31, 2010:

Table 3 – Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended December 31,	
	2011	2010
Program revenues:		
Charges for services	\$ 2,187,993	\$ 1,982,958
Operating grants and contributions	243,180	245,850
Capital grants and contributions	1,174,197	379,015
General revenues	<u>28,424,162</u>	<u>25,676,371</u>
Total revenues	<u>32,029,532</u>	<u>28,284,194</u>
Total expenses	<u>29,199,826</u>	<u>27,993,496</u>
Change in net assets	2,829,706	290,698
Net assets—beginning	<u>46,553,754</u>	<u>46,263,056</u>
Net assets—ending	<u>\$ 49,383,460</u>	<u>\$ 46,553,754</u>

As shown below in Figure 2, revenues for the year ended December 31, 2011 increased 13.2 percent, while expenses increased by 4.3 percent in comparison to the prior year.

Figure 2 – Comparison of Revenues and Expenses



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

Table 4 – Summary of Sources of Revenues

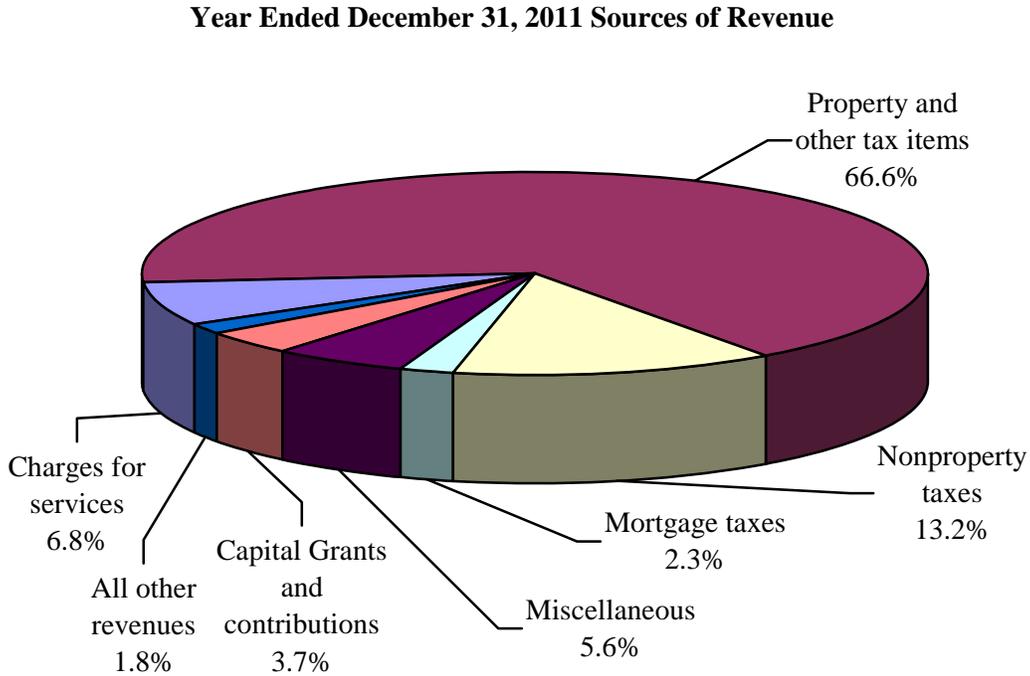
	Year Ended December 31,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Charges for services	\$ 2,187,993	\$ 1,982,958	\$ 205,035	10.3
Operating grants and contributions	243,180	245,850	(2,670)	(1.1)
Capital grants and contributions	1,174,197	379,015	795,182	209.8
Property and other tax items	21,334,508	19,233,360	2,101,148	10.9
Non-property taxes	4,231,571	3,751,008	480,563	12.8
Mortgage tax	741,809	697,201	44,608	6.4
Use of money and property	149,420	159,114	(9,694)	(6.1)
Miscellaneous	1,798,615	1,691,305	107,310	6.3
Unrestricted state aid	168,239	144,383	23,856	16.5
Total revenues	\$ 32,029,532	\$ 28,284,194	\$ 3,745,338	13.2

As presented in Table 4, the Town’s most significant source of revenues is property and other tax items, which accounts for \$21,334,508 for the year ended December 31, 2011 and \$19,233,360, for the year ended December 31, 2010. The next largest source of revenue for the year ended December 31, 2011 was non-property taxes of \$4,231,571, as compared to \$3,751,008 for the year ended December 31, 2010. Other key elements of Table 4 are as follows:

- *Capital grants and contributions*—increased by \$795,182 from the previous fiscal year due to the receipt of Federal aid related to the reimbursement of the Town’s rails-to-trails capital project.
- *Property and other tax items*—increased by \$2,101,148 from the previous fiscal year due to a budgeted increase in the tax levy.
- *Non-property taxes*—increased by \$480,563 from the year ended December 31, 2011 due to an increase in sales taxes.
- *Charges for services*—increased by \$205,035 from the prior year. This is mainly due to an increase in insurance recoveries for unanticipated general government support repair costs in the current year.

Figure 3, below, presents the components of the Town's revenues for the year ended December 31, 2011.

Figure 3 – Components of Revenues



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

Table 5 – Summary of Program Expenses

	<u>Year ended December 31,</u>		<u>Increase/(decrease)</u>	
	<u>2011</u>	<u>2010</u>	<u>Dollars</u>	<u>Percent</u>
General government support	\$ 4,648,706	\$ 3,955,835	\$ 692,871	17.5
Public safety	12,876,553	12,677,515	199,038	1.6
Health	117,427	170,303	(52,876)	(31.0)
Transportation	4,547,946	4,568,423	(20,477)	(0.4)
Culture and recreation	2,528,588	2,491,603	36,985	1.5
Home and community services	4,181,278	3,800,247	381,031	10.0
Interest on debt	299,328	329,570	(30,242)	(9.2)
Total program expenses	<u>\$ 29,199,826</u>	<u>\$ 27,993,496</u>	<u>\$ 1,206,330</u>	4.3

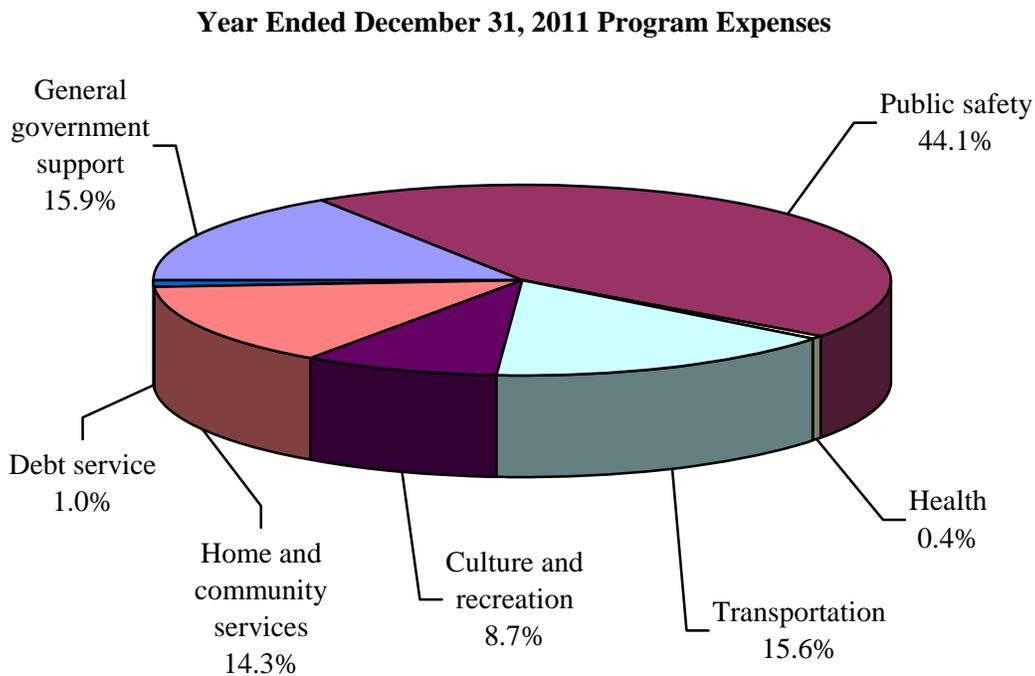
As presented in Table 5, the Town's significant expense items for the year ended December 31, 2011 were public safety of \$12,876,553 (primarily police services), home and community services of \$4,181,278 (primarily sanitation services and capital outlay), general government support of \$4,648,706 and transportation of \$4,547,946. Similarly, for the year ended December 31, 2010 significant expenses were public safety of \$12,677,515, home and community services of \$3,800,247, general government support of \$3,955,835 and transportation of \$4,568,423.

Other key elements of Table 5 are as follows:

- *General government support*—increased by \$692,871 from the year ended December 31, 2010 largely due to an increase in capital improvement expenditures that did not meet the Town’s criteria for capitalization.
- *Public safety*—increased by \$199,038 from the prior year. This is mainly due to increased costs associated with the police and fire protection services provided by the Town.
- *Home and community services*—increased by \$381,031 from the prior year, which was largely due to higher costs associated with providing services for the Town’s residents, along with increased allocated employee costs.

Figure 4, below, presents the components of the Town’s program expenses for the year ended December 31, 2011.

Figure 4 – Components of Program Expenses



Financial Analysis of the Town’s Funds

Governmental funds. The focus of the Town’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town’s financing requirements. In particular, *unassigned fund balance and fund balance assigned to the special revenue funds* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town’s governmental funds reported a combined ending fund deficit of \$3,364,438, an improvement of \$690,002 in comparison with the prior year’s combined fund deficit of \$4,054,440. Excluding the Capital Projects Fund, the Town’s governmental funds reported a combined ending fund balance of \$6,559,876, of which approximately 71.8 percent (\$4,708,979) constitutes either *unassigned fund balance or fund balance assigned for specific use*, which is available

for spending at the government’s discretion. The remainder of fund balance is *nonspendable, restricted, or assigned* to indicate that it is not available for new spending because it has already been committed to fund prepaid retirement, to pay debt service or for next year’s expenditures.

The Town’s General Fund ending fund balance was \$1,655,815. Approximately 63.6 percent (\$1,053,721) of this amount is *unassigned fund balance*. Total fund balance increased by \$182,009 as compared to the prior fiscal year end.

The Town’s Police Fund ending fund balance was \$2,119,458. Approximately 73.1 percent (\$1,549,992) of this amount is *fund balance assigned to specific use*. The Police Fund, fund balance increased by \$705,573 during 2011.

The Town’s Highway Fund – Town Outside Village ending fund balance was \$530,562. Approximately 64.6 percent (\$342,902) of this amount is *fund balance assigned to specific use*. The Highway Fund – Town Outside Village fund balance increased by \$72,635 during 2011.

The Town’s Fire Protection District Fund ending fund balance was \$126,837. All of which is *fund balance assigned to specific use*. The Fire Protection District Fund, fund balance increased by \$55,970 during 2011.

The Town’s Capital Project Fund ending fund balance was a deficit of \$9,924,314. This deficit increased by \$364,915 during 2011 as a result of utilizing short term borrowing to finance ongoing projects.

A summary of the Town’s major funds’ fund balance is provided in Table 6.

Table 6—Major Funds’ Fund Balance (Deficit)

	General Fund	Police Fund	TOV Fund	Protection Fund	Projects Fund
Net change in fund balances (deficit)	\$ 182,009	\$ 705,573	\$ 72,635	\$ 55,970	\$ (364,915)
Unassigned or assigned to specific use	1,053,721	1,549,992	342,902	126,837	(9,924,314)
Total fund balance (deficit)	1,655,715	2,119,458	530,562	126,837	(9,924,314)
Percentage unassigned or assigned to specific use	63.6%	73.1%	64.6%	100%	N/A

General Fund Budgetary Highlights

During the year there was a \$184,357 net increase in General Fund appropriations between the original and final amended budget. The main component of the increase is a \$170,847 supplemental appropriations for general government support as a result of unanticipated repair costs.

This supplemental appropriation was supported primarily by an increase in insurance recoveries.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental funds as of December 31, 2011, amounted to \$58,555,946 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment.

Depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the Town's capital asset policy.

Capital assets net of depreciation for the governmental activities at the years ended December 31, 2011 and 2010 are presented below:

Table 7—Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	2011	2010
Land	\$ 1,320,831	\$ 1,320,831
Construction in progress	752,094	5,156,660
Land improvements	1,535,426	1,504,314
Infrastructure	43,044,624	36,890,931
Buildings and improvements	10,450,385	10,598,628
Machinery and equipment	1,452,586	1,627,798
Total	<u>\$ 58,555,946</u>	<u>\$ 57,099,162</u>

The Town's infrastructure assets are recorded at historical cost or estimated historical cost in the government-wide financial statements. The Town has elected to depreciate their infrastructure assets.

Significant changes to capital assets for 2011 are in construction in progress, which includes ongoing projects relating to construction of water lines, roads and the police/court building. Additional information on the Town's capital assets can be found in Note 7 of this report.

Debt. At December 31, 2011, the Town had total long-term debt outstanding of \$6,416,145 as compared to \$6,830,171 in the prior year. New York State statutes limit the amount of general obligation debt a governmental entity may issue up to 7% of its five year valuation. The current debt-limitation for the Town is significantly in excess of the Town's outstanding general obligation debt.

The Town has a bond rating from Moody's Investor Service of Aa3. Additional information on the Town's long-term debt can be found in Note 9 of this report.

Financial Positions, Economic Factors, Next Year's Budgets and Rates

The Town is located in Erie County within the Western New York region, which has experienced difficult social and economic trends. The unemployment rate for Erie County was 7.7 percent in December 2011, which is a decrease from a rate of 8.0 percent a year ago. This is lower than the New York State average of 8.1 percent.

Inflationary trends in the region, particularly in the real estate sector compared favorably to national indices. In addition, retirement costs are expected to rise at rates well above inflation. All of these factors are considered in preparing the Town's budgets.

The Town's 2012 budget includes the appropriation of \$340,000 of fund balance in the General Fund. The General Fund tax rate is \$2.32 per thousand for the 2012 budget year.

Contacting the Town's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Supervisor's Office, Town of Lancaster, 21 Central Avenue, Lancaster, NY 14086.

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BASIC FINANCIAL STATEMENTS

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TOWN OF LANCASTER, NEW YORK
Statement of Net Assets
December 31, 2011

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,235,230
Restricted cash and cash equivalents	2,460,686
Receivables	303,368
Deposits	17,401
Due from other governments	2,167,876
Prepays	492,958
Capital assets not being depreciated	2,072,925
Capital assets net of accumulated depreciation	<u>56,483,021</u>
Total assets	<u>69,233,465</u>
 LIABILITIES	
Accounts payable	800,920
Accrued liabilities	246,564
Internal balances	342
Unearned revenue	1,034
Bond anticipation notes payable	12,385,000
Noncurrent liabilities:	
Due within one year	510,514
Due in more than one year	<u>5,905,631</u>
Total liabilities	<u>19,850,005</u>
 NET ASSETS	
Invested in capital assets, net of related debt	46,698,632
Restricted for debt service	320,846
Unrestricted	<u>2,363,982</u>
Total net assets	<u>\$ 49,383,460</u>

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

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

Function/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Primary government:					
Governmental activities:					
General government support	\$ 4,648,706	\$ 590,264	\$ 74,579	\$ -	\$ (3,983,863)
Public safety	12,876,553	1,307,007	77,286	-	(11,492,260)
Health	117,427	-	-	-	(117,427)
Transportation	4,547,946	134,244	65,209	-	(4,348,493)
Culture and recreation	2,528,588	102,783	26,106	1,174,197	(1,225,502)
Home and community services	4,181,278	53,695	-	-	(4,127,583)
Interest on debt	299,328	-	-	-	(299,328)
Total primary government	<u>\$29,199,826</u>	<u>\$ 2,187,993</u>	<u>\$ 243,180</u>	<u>\$ 1,174,197</u>	<u>(25,594,456)</u>
General revenues:					
					21,334,508
					4,231,571
					741,809
					149,420
					1,798,615
					168,239
					<u>28,424,162</u>
					2,829,706
					<u>46,553,754</u>
					<u>\$49,383,460</u>

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

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

	Special Revenue						Total Governmental Funds
	General Fund	Police Fund	Highway Fund Town Outside Village	Fire Protection District Fund	Capital Projects Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 1,323,044	\$ 563,814	\$ 115,044	\$ 152,653	\$ 269,761	\$ 2,098,223	\$ 4,522,539
Restricted cash and cash equivalents	-	-	-	-	2,460,686	-	2,460,686
Receivables	65,957	2,424	36,887	-	-	198,100	303,368
Due from other funds	356,072	483	9	-	-	22,493	379,057
Deposits	17,401	-	-	-	-	-	17,401
Due from other governments	31,883	1,401,679	368,686	-	354,128	11,500	2,167,876
Prepays	115,295	289,466	76,142	-	-	12,055	492,958
Total assets	<u>\$1,909,652</u>	<u>\$2,257,866</u>	<u>\$ 596,768</u>	<u>\$ 152,653</u>	<u>\$3,084,575</u>	<u>\$2,342,371</u>	<u>\$ 10,343,885</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities:							
Accounts payable	\$ 201,459	\$ 74,216	\$ 35,332	\$ 25,816	\$ 244,281	\$ 205,802	\$ 786,906
Accrued liabilities	51,998	63,747	30,874	-	-	9,365	155,984
Due to other funds	380	445	-	-	378,574	-	379,399
Deferred revenue	-	-	-	-	1,034	-	1,034
Bond anticipation notes payable	-	-	-	-	12,385,000	-	12,385,000
Total liabilities	<u>253,837</u>	<u>138,408</u>	<u>66,206</u>	<u>25,816</u>	<u>13,008,889</u>	<u>215,167</u>	<u>13,708,323</u>
Fund balances (deficits):							
Nonspendable	115,295	289,466	76,142	-	-	12,055	492,958
Restricted:							
Debt service	124,764	-	60,195	-	-	135,887	320,846
Assigned:							
Subsequent year's expenditures	340,000	280,000	-	-	-	343,735	963,735
Encumbrances	22,035	-	51,323	-	-	-	73,358
Specific use	-	1,549,992	342,902	126,837	-	1,635,527	3,655,258
Unassigned	1,053,721	-	-	-	(9,924,314)	-	(8,870,593)
Total fund balances (deficits)	<u>1,655,815</u>	<u>2,119,458</u>	<u>530,562</u>	<u>126,837</u>	<u>(9,924,314)</u>	<u>2,127,204</u>	<u>(3,364,438)</u>
Total liabilities and fund balances (deficits)	<u>\$1,909,652</u>	<u>\$2,257,866</u>	<u>\$ 596,768</u>	<u>\$ 152,653</u>	<u>\$3,084,575</u>	<u>\$2,342,371</u>	<u>\$ 10,343,885</u>

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

TOWN OF LANCASTER, NEW YORK
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
December 31, 2011

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

Total fund balances (deficit)—governmental funds		\$ (3,364,438)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$87,167,376 and the accumulated depreciation is \$28,611,430.		58,555,946
To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due.		(6,630)
To recognize long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds, as follows:		
Serial bonds	\$ (1,900,000)	
Due to other governments	(33,000)	
Compensated absences	(2,490,284)	
Other postemployment benefits	<u>(1,992,861)</u>	(6,416,145)
Internal service fund balance which is due to governmental activities and related charges for services provided.		<u>614,727</u>
Total net assets—governmental activities		<u>\$ 49,383,460</u>

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

TOWN OF LANCASTER, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficits)—Governmental Funds
Year Ended December 31, 2011

	Special Revenue						Total Governmental Funds
	General Fund	Police Fund	Highway Fund Town Outside Village	Fire Protection District Fund	Capital Projects Fund	Other Governmental Funds	
REVENUES							
Real property taxes	\$6,097,361	\$4,774,753	\$2,735,631	\$3,707,684	\$ -	\$3,327,259	\$ 20,642,688
Other property tax items	356,478	198,815	126,673	-	-	9,854	691,820
Non-property tax items	-	2,929,266	976,422	-	-	325,883	4,231,571
Departmental income	210,287	6,443	-	-	-	67,345	284,075
Intergovernmental charges	46,123	1,021,601	97,919	-	-	28,515	1,194,158
Use of money and property	58,695	12,664	7,466	8,329	-	60,341	147,495
Licenses and permits	85,498	-	-	-	-	145,796	231,294
Fines and forfeitures	181,347	24,276	-	-	-	-	205,623
Sale of property and compensation for loss	196,080	40,438	36,325	-	-	-	272,843
Miscellaneous	165,294	21,924	30,484	-	609,698	345,765	1,173,165
State aid	845,788	73,992	65,209	-	203,908	168,239	1,357,136
Federal aid	-	-	-	-	970,289	-	970,289
Total revenues	<u>8,242,951</u>	<u>9,104,172</u>	<u>4,076,129</u>	<u>3,716,013</u>	<u>1,783,895</u>	<u>4,478,997</u>	<u>31,402,157</u>
EXPENDITURES							
Current:							
General government support	3,048,853	8,639	4,734	8,052	692,240	2,372	3,764,890
Public safety	121,739	5,753,539	-	3,651,991	-	457,865	9,985,134
Health	88,507	-	-	-	-	3,070	91,577
Transportation	130,733	-	2,411,285	-	551,852	299,245	3,393,115
Culture and recreation	1,828,740	-	-	-	29,248	105,387	1,963,375
Home and community services	419,037	-	-	-	1,627,857	2,580,605	4,627,499
Employee benefits	1,058,595	1,817,069	727,899	-	-	132,818	3,736,381
Debt service:							
Principal	431,390	-	213,610	-	-	236,000	881,000
Interest	153,495	-	34,195	-	-	115,583	303,273
Total expenditures	<u>7,281,089</u>	<u>7,579,247</u>	<u>3,391,723</u>	<u>3,660,043</u>	<u>2,901,197</u>	<u>3,932,945</u>	<u>28,746,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>961,862</u>	<u>1,524,925</u>	<u>684,406</u>	<u>55,970</u>	<u>(1,117,302)</u>	<u>546,052</u>	<u>2,655,913</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	120,000	250,277	-	-	790,000	37,613	1,197,890
Transfers out	(899,853)	(1,069,629)	(611,771)	-	(37,613)	(544,935)	(3,163,801)
Total other financing sources (uses)	<u>(779,853)</u>	<u>(819,352)</u>	<u>(611,771)</u>	<u>-</u>	<u>752,387</u>	<u>(507,322)</u>	<u>(1,965,911)</u>
Net change in fund balances (deficits)	182,009	705,573	72,635	55,970	(364,915)	38,730	690,002
Fund balances (deficits)—beginning	<u>1,473,806</u>	<u>1,413,885</u>	<u>457,927</u>	<u>70,867</u>	<u>(9,559,399)</u>	<u>2,088,474</u>	<u>(4,054,440)</u>
Fund balances (deficits)—ending	<u>\$1,655,815</u>	<u>\$2,119,458</u>	<u>\$ 530,562</u>	<u>\$ 126,837</u>	<u>\$(9,924,314)</u>	<u>\$2,127,204</u>	<u>\$ (3,364,438)</u>

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

TOWN OF LANCASTER, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2011

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

Net change in fund balances—total governmental funds \$ 690,002

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost is allocated over their estimated useful lives and reported as depreciation expense. In addition, in the statement of activities, losses on disposal are reported. The net effect of these differences in the treatment of capital assets and related items is as follows:

Capital asset additions	\$3,047,537	
Depreciation expense	(1,556,257)	
Loss on disposal	<u>(34,496)</u>	1,456,784

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

Net activity of serial bonds	\$ 870,000	
Net activity of amount due to other governments	11,000	
Net change in accrued interest on bonds	<u>3,945</u>	884,945

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

Net change in post employment benefits	\$ (348,492)	
Net change in compensated absences	<u>(118,482)</u>	(466,974)

Internal service funds are used by management to charge the cost of insurance, judgements, claims and related administrative expenses to individual funds. The net excess of charges for such services is reported within governmental activities. 264,949

Change in net assets of governmental activities \$ 2,829,706

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

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

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$6,097,361	\$6,097,361	\$6,097,361	\$ -
Other property tax items	315,000	315,000	356,478	41,478
Departmental income	199,000	199,000	210,287	11,287
Intergovernmental charges	42,362	42,362	46,123	3,761
Use of money and property	50,000	50,000	58,695	8,695
Licenses and permits	65,500	65,500	85,498	19,998
Fines and forfeitures	227,000	227,000	181,347	(45,653)
Sale of property and compensation for loss	3,000	187,357	196,080	8,723
Miscellaneous	10,000	10,000	165,294	155,294
State aid	816,027	816,027	845,788	29,761
Total revenues	<u>7,825,250</u>	<u>8,009,607</u>	<u>8,242,951</u>	<u>233,344</u>
EXPENDITURES				
Current:				
General government support	3,138,123	3,308,970	3,048,853	260,117
Public safety	123,207	125,722	121,739	3,983
Health	89,163	89,448	88,507	941
Transportation	134,460	134,460	130,733	3,727
Culture and recreation	1,871,640	1,862,740	1,828,740	34,000
Home and community services	502,495	440,950	419,037	21,913
Employee benefits	997,277	1,078,432	1,058,595	19,837
Debt service:				
Principal	431,390	431,390	431,390	-
Interest	153,495	153,495	153,495	-
Total expenditures	<u>7,441,250</u>	<u>7,625,607</u>	<u>7,281,089</u>	<u>344,518</u>
Excess of revenues over expenditures	<u>384,000</u>	<u>384,000</u>	<u>961,862</u>	<u>577,862</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	120,000	120,000	120,000	-
Transfers out	(914,000)	(914,000)	(899,853)	14,147
Total other financing sources (uses)	<u>(794,000)</u>	<u>(794,000)</u>	<u>(779,853)</u>	<u>14,147</u>
Net change in fund balances	(410,000)	(410,000)	182,009	592,009
Fund balances - beginning	1,473,806	1,473,806	1,473,806	-
Fund balances - ending	<u>\$1,063,806</u>	<u>\$1,063,806</u>	<u>\$1,655,815</u>	<u>\$ 592,009</u>

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

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

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$4,774,753	\$4,774,753	\$4,774,753	\$ -
Other property tax items	185,000	185,000	198,815	13,815
Non-property tax items	2,572,500	2,572,500	2,929,266	356,766
Departmental income	5,500	5,500	6,443	943
Intergovernmental charges	972,000	972,000	1,021,601	49,601
Use of money and property	20,000	20,000	12,664	(7,336)
Fines and forfeitures	10,000	10,000	24,276	14,276
Sale of property and compensation for loss	2,000	2,000	40,438	38,438
Miscellaneous	1,000	1,000	21,924	20,924
State aid	-	-	73,992	73,992
Total revenues	<u>8,542,753</u>	<u>8,542,753</u>	<u>9,104,172</u>	<u>561,419</u>
EXPENDITURES				
Current:				
General government support	33,639	33,639	8,639	25,000
Public safety	5,876,096	5,876,373	5,753,539	122,834
Employee benefits	2,053,018	2,053,018	1,817,069	235,949
Total expenditures	<u>7,962,753</u>	<u>7,963,030</u>	<u>7,579,247</u>	<u>383,783</u>
Excess of revenues over expenditures	<u>580,000</u>	<u>579,723</u>	<u>1,524,925</u>	<u>945,202</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	250,000	250,277	250,277	-
Transfers out	(1,110,000)	(1,110,000)	(1,069,629)	40,371
Total other financing sources (uses)	<u>(860,000)</u>	<u>(859,723)</u>	<u>(819,352)</u>	<u>40,371</u>
Net change in fund balances	(280,000)	(280,000)	705,573	985,573
Fund balances - beginning	<u>1,413,885</u>	<u>1,413,885</u>	<u>1,413,885</u>	<u>-</u>
Fund balances - ending	<u>\$1,133,885</u>	<u>\$1,133,885</u>	<u>\$2,119,458</u>	<u>\$ 985,573</u>

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

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

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$2,735,631	\$2,735,631	\$2,735,631	\$ -
Other property tax items	111,500	111,500	126,673	15,173
Non-property tax items	857,500	857,500	976,422	118,922
Intergovernmental charges	95,000	95,000	97,919	2,919
Use of money and property	8,000	8,000	7,466	(534)
Sale of property and compensation for loss	8,000	8,000	36,325	28,325
Miscellaneous	100	100	30,484	30,384
State aid	50,000	50,000	65,209	15,209
Total revenues	<u>3,865,731</u>	<u>3,865,731</u>	<u>4,076,129</u>	<u>210,398</u>
EXPENDITURES				
Current:				
General government support	4,734	4,734	4,734	-
Transportation	2,535,095	2,470,330	2,411,285	59,045
Employee benefits	606,088	729,073	727,899	1,174
Debt service:				
Principal	213,610	213,610	213,610	-
Interest	34,204	34,204	34,195	9
Total expenditures	<u>3,393,731</u>	<u>3,451,951</u>	<u>3,391,723</u>	<u>60,228</u>
Excess of revenues over expenditures	<u>472,000</u>	<u>413,780</u>	<u>684,406</u>	<u>270,626</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(637,000)</u>	<u>(611,780)</u>	<u>(611,771)</u>	<u>9</u>
Total other financing sources (uses)	<u>(637,000)</u>	<u>(611,780)</u>	<u>(611,771)</u>	<u>9</u>
Net change in fund balances	(165,000)	(198,000)	72,635	270,635
Fund balances - beginning	<u>457,927</u>	<u>457,927</u>	<u>457,927</u>	<u>-</u>
Fund balances - ending	<u>\$ 292,927</u>	<u>\$ 259,927</u>	<u>\$ 530,562</u>	<u>\$ 270,635</u>

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

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

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$3,707,684	\$3,707,684	\$3,707,684	\$ -
Use of money and property	<u>8,000</u>	<u>8,000</u>	<u>8,329</u>	<u>329</u>
Total revenues	<u>3,715,684</u>	<u>3,715,684</u>	<u>3,716,013</u>	<u>329</u>
EXPENDITURES				
Current:				
General government support	8,052	8,052	8,052	-
Public safety	<u>3,707,632</u>	<u>3,707,632</u>	<u>3,651,991</u>	<u>55,641</u>
Total expenditures	<u>3,715,684</u>	<u>3,715,684</u>	<u>3,660,043</u>	<u>55,641</u>
Excess of revenues over expenditures	-	-	55,970	55,970
Fund balances - beginning	<u>70,867</u>	<u>70,867</u>	<u>70,867</u>	<u>-</u>
Fund balances - ending	<u>\$ 70,867</u>	<u>\$ 70,867</u>	<u>\$ 126,837</u>	<u>\$ 55,970</u>

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

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TOWN OF LANCASTER, NEW YORK
Statement of Net Assets
Proprietary Fund
December 31, 2011

	Governmental Activities— Internal Service Fund
	Self Insurance Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 712,691
Total current assets	712,691
LIABILITIES	
Current liabilities:	
Accounts payable	14,014
Accrued liabilities	83,950
Total current liabilities	97,964
NET ASSETS	
Restricted for claims	614,727
Total net assets	\$ 614,727

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

TOWN OF LANCASTER, NEW YORK
Statement of Revenues, Expenses and Change in Net Assets
Proprietary Fund
Year Ended December 31, 2011

	Governmental Activities— Internal Service Fund
	Self Insurance Fund
Operating revenues:	
Charges for services	<u>\$ 1,965,911</u>
Total operating revenues	<u>1,965,911</u>
Operating expenses:	
Administrative fees	88,573
Claims expenses	1,393,500
Excess insurance	<u>220,814</u>
Total operating expenses	<u>1,702,887</u>
Operating gain	<u>263,024</u>
Nonoperating revenues:	
Interest income	<u>1,925</u>
Total nonoperating revenues	<u>1,925</u>
Change in net assets	264,949
Total net assets—beginning	<u>349,778</u>
Total net assets—ending	<u>\$ 614,727</u>

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

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

	Governmental Activities— Internal Service Fund
	Self Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from participating funds	\$ 1,965,911
Payments for claims	(1,353,999)
Payments for administration and insurance	<u>(309,387)</u>
Net cash provided by operating activities	<u>302,525</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	<u>1,925</u>
Net cash provided by investing activities	<u>1,925</u>
Net increase in cash and cash equivalents	304,450
Cash and cash equivalents—beginning	<u>408,241</u>
Cash and cash equivalents—ending	<u>\$ 712,691</u>
Reconciliation of operating loss to net cash provided in operating activities:	
Operating gain	\$ 263,024
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in accounts payable	3,995
Increase in accrued liabilities	<u>35,506</u>
Net cash provided by operating activities	<u>\$ 302,525</u>

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

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

ASSETS

Cash	\$ 202,172
Due from other funds	342
Service award program assets	<u>2,743,728</u>
Total assets	<u>\$ 2,946,242</u>

LIABILITIES

Agency liabilities	\$ 202,514
Service awards	<u>2,743,728</u>
Total liabilities	<u>\$ 2,946,242</u>

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

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TOWN OF LANCASTER, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Town is a unit of local government created in 1833 by the State of New York. The Town operates under provisions of New York State law and various local laws. The five-member Town Board is the legislative body responsible for overall operations. The Supervisor serves as both Chief Executive Officer and Chief Fiscal Officer.

Independently elected officials of the Town include:

Supervisor	Town Clerk & Receiver of Taxes
Councilmembers (4)	Superintendent of Highways
Town Justices (2)	

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

Units of local government which operate within the boundaries of the Town are the County of Erie and the Villages of Depew and Lancaster. Public education is provided by five independent school districts within the Town.

Financial Reporting Entity. All governmental activities and functions performed for the Town are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

Considered for inclusion in the reporting entity is the following organization:

Town of Lancaster Industrial Development Agency. The appointment of the Governing Board and the scope of public service are not considered an adequate demonstration of oversight and control. The Town has no authority to approve the Agency’s budget nor does it have any responsibility for the debt, financing deficits or fiscal management of the Town of Lancaster Industrial Development Agency. Additionally, the Town does not influence the operation of the Industrial Development Agency in any respect.

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Town considers the following governmental funds as major funds:

- *General Fund*—This is the principal operating fund of the Town and includes all operations not required to be recorded in other funds.
- *Police Fund*—This fund records all revenues and expenditures related to police activities.
- *Highway Fund – Town Outside Village*—This fund is used to record revenues and expenditures related to road maintenance and construction outside village boundaries.
- *Fire Protection District Fund*—This fund is used to record all revenues and expenditures related to fire protection district activities.
- *Capital Projects Fund*—Used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.

Additionally, the Town reports the following fund types:

Internal Service Fund—The Internal Service Fund is used to account for the activity of the Town’s self-insured health plan.

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

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

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

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

Budgets—Annual budgets for all governmental funds, except the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”). A form of encumbrance accounting is employed as an extension of budgetary control in all governmental funds, under which certain contracts and other commitments outstanding at year-end for the expenditure of monies (encumbrances) are recorded as an assignment of fund balance. All unencumbered appropriations lapse at the end of the year. On January 1st, encumbrance assignments outstanding at year-end are reappropriated to the ensuing year’s original budget.

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

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

Restricted Cash and Cash Equivalents—Unspent proceeds of bond anticipation notes are reported as restricted cash and cash equivalents

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

Prepays—Certain payments reflect costs applicable to future periods and are recorded as prepaid items.

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

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

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

Capital Assets—Capital assets, which include property, buildings, equipment and infrastructure assets (e.g. roads, bridges, drainage systems and similar items) are reported in the general fixed asset account group. Capital assets are defined by the Town as assets with an initial individual cost of more than \$40,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant, and equipment of the Town are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	***
Construction in progress	***
Land improvements	25
Buildings and improvements	15-75
Machinery and equipment	3-25
Infrastructure	20-100

Postemployment Benefits—In addition to providing pension benefits, the Town provides health insurance coverage and/or payments for fractional values of unused sick leave for certain retired employees at the time of retirement as discussed in Note 11.

Unearned/Deferred Revenues—Certain revenues have not met the revenue recognition criteria for government-wide or fund purposes.

Insurance—The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Town purchases commercial insurance to cover such potential risks.

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

Fund Balances—Governmental funds report nonspendable fund balance which are not in spendable form such as prepaid expenditures. Restrictions of fund balance are for amounts that are not available

for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

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

- ◆ **Invested in Capital Assets, Net of Related Debt**—This category groups all capital assets including infrastructure, into one component of net assets. Accumulated depreciation and outstanding debt attributable to the capital assets reduce the balance in this category.
- ◆ **Restricted Net Assets**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation.
- ◆ **Unrestricted Net Assets**—This category represents net assets of the Town not restricted for any project or other purpose.

Adoption of New Accounting Pronouncement—During the year ended December 31, 2011, the Town adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Town to change its fund balance classifications for governmental funds. The new classifications are explained below.

- ◆ **Nonspendable fund balance**—Amounts that are not in a spendable form (such as inventory or prepaids) or are required to be maintained intact (such as the corpus of an endowment fund).
- ◆ **Restricted fund balance**—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- ◆ **Committed fund balance**—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (Town Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- ◆ **Assigned fund balance**—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body (Director of Administration and Finance) to which the governing body delegates the authority.
- ◆ **Unassigned fund balance**—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended December 31, 2011, the Town completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending December 31, 2011. GASB Statement No. 59 did not have a material impact on the Town's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Town has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial*

Reporting for Service Concession Arrangements; No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements; No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 5, effective December 31, 2012; and No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34; No. 65, Items Previously Reported As Assets and Liabilities; and No. 66, Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62, effective December 31, 2013. The Town is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63, 64, 65, and 66 will have on its financial position and results of operations when such statements are adopted.

2. LEGAL COMPLIANCE—BUDGETS

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

- ◆ Prior to September 30, the Town Supervisor files a “tentative” budget with the Town Clerk for the following fiscal year to commence on January 1. This budget, which includes appropriations and estimated revenues, is then presented to the full Town Board by October 5th.
- ◆ The full Town Board reviews the tentative budget and may adjust same before approving a “preliminary” budget and calling for a public hearing, which is generally held in October.
- ◆ Following the public hearing, revisions may again be made by the Town Board before filing an adopted budget with Erie County by November 20th.
- ◆ Formal annual budgetary accounts are employed as a management control device for the General and Special Revenue Funds.
- ◆ During the fiscal year, the Town Board can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for the departmental budgetary control. All budget amendments and budget transfers require Town Board approval.
- ◆ Annual budgets for governmental funds, except the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A form of encumbrance accounting is employed as an extension of budgetary control in all governmental funds, under which certain contracts and other commitments outstanding at year-end for the expenditure of monies (encumbrances) are recorded as an assignment of fund balance. All unencumbered appropriations lapse at the end of the fiscal year. On January 1st, encumbrance assignments outstanding at year-end are reappropriated to the ensuing year’s original budget.
- ◆ The Capital Projects Fund appropriations are not included in the Town’s annual budget. Instead appropriations are approved through a Town Board resolution at the project’s inception and lapse upon termination of the project.
- ◆ Total expenditures for each object classification within a department may not legally exceed the total appropriations for that object classification.

3. PROPERTY TAX

Erie County Legislature prepares the levy in late December of each year and jointly bills the Town levy with New York State and Erie County real property taxes. Property taxes are levied as of January 1 on assessed property values as of that date.

Tax payments are due January 15th to February 15th without penalty; February 16th to 28th with a 1.5% penalty; March 1st to 15th a 3.0% penalty ; March 16th to April 1st a 4.5% penalty; April 2nd to 15th a 6.0% penalty; and April 16th to May 30th a 7.5% penalty; and 1% added each month thereafter.

The tax roll is returned to the Erie County Commissioner of Finance after June 30th at which time all unpaid taxes and penalties are payable to that office. The Town retains their full tax levies for all unpaid items to the County. Thus, the Town is assured of receiving 100% of its tax levy. The County enforces all liens.

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

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal government. Total cash and cash equivalents reported by the Town at December 31, 2011, is as follows:

Governmental Funds	\$ 6,983,225
Agency Fund	202,172
Proprietary Fund	<u>712,691</u>
Total	<u>\$ 7,898,088</u>

Cash and cash equivalents at year-end consisted of:

Petty Cash (uncollateralized)	\$ 1,900
Deposits	<u>7,896,188</u>
Total	<u>\$ 7,898,088</u>

Deposits—All deposits are carried at fair value.

The following is a summary of deposits:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
Insured (FDIC)	\$ 892,823	\$ 892,823
Uninsured:		
Collateral held by bank's agent in Town's name	<u>7,057,653</u>	<u>7,003,365</u>
Total	<u>\$ 7,950,476</u>	<u>\$ 7,896,188</u>

Custodial Credit Risk—In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. As of December 31, 2011, none of the Town’s deposits were exposed to custodial credit risk because all deposits were fully insured or collateralized with securities held by the pledging financial institutions in the Town’s name.

Interest rate risk—In accordance with its investment policy, the government manages exposures by limiting investments to low risk type investments governed by New York State Statutes. At December 31, 2011, the Town had no investments.

Restricted cash and cash equivalents—Unspent proceeds of bond anticipation notes are reported as restricted cash and cash equivalents. At December 31, 2011, the Town reported \$2,460,686 of restricted cash and cash equivalents within its governmental activities.

5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables—Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. Interfund receivables and payables of the Town at December 31, 2011 consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General Fund	\$ 356,072	\$ 380
Police Fund	483	445
Highway Fund - Town Outside Village	9	-
Capital Projects Fund	-	378,574
Consolidated Water District Fund	22,493	-
Total governmental funds		
Agency Fund	<u>342</u>	<u>-</u>
Total	<u>\$ 379,399</u>	<u>\$ 379,399</u>

Interfund transfers—Interfund transfers are used primarily to provide funding for the Town’s self insurance health insurance program, for capital projects and to provide for Recreation and Police Fund expenditures. The Town made the following transfers during 2011:

	Transfers In	Transfers Out
	<u> </u>	<u> </u>
Governmental funds		
General Fund	\$ 120,000	\$ 899,853
Police Fund	250,277	1,069,629
Highway Fund—Town Outside Village	-	611,771
Capital Projects Fund	790,000	37,613
Other governmental funds	<u>37,613</u>	<u>544,935</u>
Total governmental funds	1,197,890	3,163,801
Proprietary Fund	<u>1,965,911</u>	-
Total	<u>\$ 3,163,801</u>	<u>\$ 3,163,801</u>

6. RECEIVABLES

Revenues accrued by the Town at December 31, 2011 consist of the following:

- A. *Accounts Receivable***—primarily represents franchise fees, various amounts due from other Town departments and other miscellaneous items. The most significant of which are franchise fees of \$163,714 reported in the General—Town Outside Village Fund total receivables of \$172,114.
- B. *Due from State, Federal and Other Governments***—represents amounts due from other units of government, such as Federal, New York State, County of Erie, school districts or other local governments. Amounts due the Town at December 31, 2011 are presented below:

General Fund—Townwide:		
Due from State	\$ 26,032	
Miscellaneous	<u>5,851</u>	\$ 31,883
Police Fund:		
Due from Federal	\$ 26,315	
Erie County—Sales tax	1,109,188	
Village of Lancaster	213,732	
Lancaster CSD—SRO officer	<u>52,444</u>	1,401,679
Highway Fund—Town Outside Village:		
Erie County—Sales tax		368,686
Capital Projects Fund:		
Due from State	\$ 179,142	
Erie County—Environment and planning	<u>174,986</u>	354,128
General Fund—Town Outside Village:		
Village of Lancaster		<u>11,500</u>
Total		<u>\$ 2,167,876</u>

7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/2011	Additions and Reclassifications	Deletions and Reclassifications	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	\$ 1,320,831	\$ -	\$ -	\$ 1,320,831
Construction in progress	<u>5,156,660</u>	<u>2,248,637</u>	<u>6,653,203</u>	<u>752,094</u>
Total capital assets, not being depreciated	<u>6,477,491</u>	<u>2,248,637</u>	<u>6,653,203</u>	<u>2,072,925</u>
Capital assets, being depreciated:				
Land improvements	1,566,994	97,700	-	1,664,694
Infrastructure	58,447,555	7,244,157	-	65,691,712
Buildings and improvements	14,035,638	75,750	-	14,111,388
Machinery and equipment	<u>3,626,657</u>	<u>-</u>	<u>-</u>	<u>3,626,657</u>
Total capital assets, being depreciated	<u>77,676,844</u>	<u>7,417,607</u>	<u>-</u>	<u>85,094,451</u>
Less accumulated depreciation for:				
Land improvements	(62,680)	(66,588)	-	(129,268)
Infrastructure	(21,556,624)	(1,090,464)	-	(22,647,088)
Buildings and improvements	(3,437,010)	(223,993)	-	(3,661,003)
Machinery and equipment	<u>(1,998,859)</u>	<u>(175,212)</u>	<u>-</u>	<u>(2,174,071)</u>
Total accumulated depreciation	<u>(27,055,173)</u>	<u>(1,556,257)</u>	<u>-</u>	<u>(28,611,430)</u>
Total capital assets, being depreciated, net	<u>50,621,671</u>	<u>5,861,350</u>	<u>-</u>	<u>56,483,021</u>
Governmental activities capital assets, net	<u>\$ 57,099,162</u>	<u>\$ 8,109,987</u>	<u>\$ 6,653,203</u>	<u>\$ 58,555,946</u>

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental activities:	
General government support	\$ 131,941
Public safety	72,957
Transportation	904,692
Culture and recreation	146,222
Home and community service	<u>300,445</u>
Total governmental activities depreciation expense	<u>\$ 1,556,257</u>

8. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BAN’s”) are generally accounted for in the capital projects funds. Principal payments on BAN’s must be made annually.

State law requires that BAN’s issued for capital purposes, be converted to long-term obligations within five years after the original issue date. However, BAN’s issued for assessable improvement projects may be renewed for a period equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. A summary of BAN transactions for the year ended December 31, 2011 is presented below:

	Interest Rate	Balance 1/1/2011	Issued	Redeemed	Balance 12/31/2011
Capital Projects Fund:					
General Fund--Townwide:					
Town Hall Improvements	1.50%	\$ 2,170,000	\$ -	\$ 2,170,000	\$ -
Town Hall Improvements	1.50%	-	2,020,000	-	2,020,000
Police Court Building	1.50%	2,500,000	-	2,500,000	-
Police Court Building	1.50%	-	2,500,000	-	2,500,000
OEM Building - HVAC System	1.50%	-	100,000	-	100,000
Consolidated Water District:					
Transit Rd. Water Improvements	1.50%	575,000	-	575,000	-
Transit Rd. Water Improvements	1.50%	-	530,000	-	530,000
Town-wide Water Improvements	1.50%	6,100,000	-	6,100,000	-
Town-wide Water Improvements	1.50%	-	5,770,000	-	5,770,000
Highway Fund--Town Outside Village:					
Siebert Rd. Improvements	1.50%	235,000	-	235,000	-
Siebert Rd. Improvements	1.50%	-	130,000	-	130,000
Steinfeldt Rd. Improvements	1.50%	110,000	-	110,000	-
Steinfeldt Rd. Improvements	1.50%	-	75,000	-	75,000
Glendale/Parkdale Rd. Recon	1.50%	700,000	-	700,000	-
Glendale/Parkdale Rd. Recon	1.50%	-	650,000	-	650,000
Highway Truck Dump Bodies	1.50%	35,000	-	35,000	-
Highway Truck Dump Bodies	1.50%	-	25,000	-	25,000
Highway Equipment	1.50%	650,000	-	650,000	-
Highway Equipment	1.50%	-	585,000	-	585,000
Total		<u>\$ 13,075,000</u>	<u>\$ 12,385,000</u>	<u>\$ 13,075,000</u>	<u>\$ 12,385,000</u>

9. LONG-TERM DEBT

Serial Bonds—The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. The bonds are full faith and credit debt of the Town. A summary of bonded indebtedness transactions for the year ended December 31, 2011 is presented on the following page.

Description	Year of of Issue/ Maturity	Interest Rate	Principal Outstanding 1/1/2011	Issued	Redeemed	Principal Outstanding 12/31/2011
General Fund - Townwide:						
Westwood Park	1994/2014	5.6%-5.9%	\$ 500,000	\$ -	\$ 125,000	\$ 375,000
Westwood Park Phase II	1996/2011	5.0%-5.1%	75,000	-	75,000	-
Recreation Equipment	2004/2011	3.35%	5,000	-	5,000	-
Salt Storage Building	2004/2011	3.35%	35,000	-	35,000	-
Walden Ave. Building/Land Acquisition	2005/2024	3.5%-4.0%	1,385,000	-	105,000	1,280,000
Senior Citizen Center Building	2005/2011	3.5%	50,000	-	50,000	-
Town Hall- Restrooms	2005/2011	3.5%	5,000	-	5,000	-
Construction & Maintenance	2006/2011	3.95%	21,390	-	21,390	-
Total General Fund- Townwide			<u>2,076,390</u>	<u>-</u>	<u>421,390</u>	<u>1,655,000</u>
Highway Fund- Townwide:						
Bridge Recon. (1/1/04)	2005/2015	3.5%-3.8%	<u>105,000</u>	<u>-</u>	<u>20,000</u>	<u>85,000</u>
Total Highway Fund- Townwide			<u>105,000</u>	<u>-</u>	<u>20,000</u>	<u>85,000</u>
Highway Fund- Town Outside Villages						
Highway Equipment	2004/2011	3.00%	110,000	-	110,000	-
Highway Equipment	2005/2013	3.5%-3.8%	45,000	-	15,000	30,000
Highway Equipment	2006/2011	4.05%	70,000	-	70,000	-
Highway Equipment	2006/2011	3.95%	<u>28,610</u>	<u>-</u>	<u>28,610</u>	<u>-</u>
Total Highway Fund- TOV			<u>253,610</u>	<u>-</u>	<u>223,610</u>	<u>30,000</u>
Consolidated Water District						
Water Improvements Phase I	1996/2011	5.0%-5.1%	75,000	-	75,000	-
William St. Pump Station Series A	2005/2012	3.5%	80,000	-	40,000	40,000
William St. Pump Station Series B	2005/2012	3.5%	<u>180,000</u>	<u>-</u>	<u>90,000</u>	<u>90,000</u>
Total Consolidated Water District			<u>335,000</u>	<u>-</u>	<u>205,000</u>	<u>130,000</u>
Grand total			<u>\$2,770,000</u>	<u>\$ -</u>	<u>\$ 870,000</u>	<u>\$ 1,900,000</u>

Due to Other Governments—Represents a long-term liability, due to the Village of Lancaster, to reimburse the Village for repairs and improvements related to Central Avenue reconstruction. The amount recorded in the schedule of non-current government liabilities at December 31, 2011, for governmental activities is \$33,000.

Compensated Absences—As explained in Note 1, certain Town employees are permitted to accumulate earned but unused vacation and sick benefits. Upon retirement, these employees are entitled to compensation for such unused benefits. The payment in cash or health care benefits depends upon individual options selected upon retirement in accordance with the contractual agreement for union employees and Town Board rules and regulations for non-union employees. The annual budgets of the operating funds provide funding for these benefits as they become payable.

The value recorded in the schedule of non-current government liabilities at December 31, 2011, for governmental activities is \$2,490,284.

OPEB Obligation—As explained in Note 11, the Town provides health insurance coverage for certain retirees. The Town’s annual postemployment benefit (“OPEB”) cost is calculated based in the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The estimated long-term OPEB liability is estimated to be \$1,992,861 as of December 31, 2011.

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

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Serial bonds	\$ 2,770,000	\$ -	\$ 870,000	\$ 1,900,000
Due to other governments	44,000	-	11,000	33,000
Compensated absences	2,371,802	232,576	114,094	2,490,284
Other post employee benefits	1,644,369	798,026	449,534	1,992,861
Total	<u>\$ 6,830,171</u>	<u>\$ 1,030,602</u>	<u>\$ 1,444,628</u>	<u>\$ 6,416,145</u>

The following is a maturity schedule of the Town’s indebtedness:

	Serial Bonds	Due to Other Governments	Compensated Absences	Other Post Employee Benefits	Total
2012	\$ 375,000	\$ 11,000	\$ 124,514	\$ -	\$ 510,514
2013	250,000	11,000	-	-	261,000
2014	250,000	11,000	-	-	261,000
2015	125,000	-	-	-	125,000
2016	100,000	-	-	-	100,000
2017-2021	500,000	-	-	-	500,000
2022-thereafter	300,000	-	2,365,770	1,992,861	4,658,631
	<u>\$ 1,900,000</u>	<u>\$ 33,000</u>	<u>\$ 2,490,284</u>	<u>\$ 1,992,861</u>	<u>\$ 6,416,145</u>

Interest requirements on serial bonds payable are as follows:

Year	Interest
2012	\$ 71,563
2013	57,531
2014	45,469
2015	37,094
2016	32,875
2017-2021	108,000
2022-2026	18,000
	<u>\$ 370,532</u>

10. PENSION PLANS

Plan Description—The Town participates in the New York and Local Employees’ Retirement System (“ERS”), and the New York State and Local Police and Fire Retirement System (“PFRS”), and the Public Employees’ Group Life Insurance Plan (“Systems”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (“Comptroller”) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of their membership, employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employees’ contributions based on salaries paid during the New York State and Local Employees’ Retirement System’s fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of contributions required, and were as follows:

	<u>ERS</u>	<u>PFRS</u>
2011	\$ 927,098	\$ 1,044,732
2010	619,689	994,696
2009	363,021	862,509

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description—In addition to providing pension benefits and payment for fractional values of unused sick leave, the Town provides health insurance coverage to eligible retired employees. Police participants, age 55 with 5 years of service or any age with 20 years of service may be eligible if hired on or before 1/1/2000. Non-police participants age 55 with 10 years of service may be eligible if hired before 1/1/1977. The Town is obligated to pay such benefits as a result of union contracts and Town Board rules and regulation for nonunion employees. Health care benefits are provided by the Town’s Senior Blue 699 Plan to eligible retired employees age 65 and over and self funded POS204, PPO813 plans for those under age 65 and whose premiums are based on the benefits paid during the year. The Town recognizes the cost of providing benefits by recording its share of insurance costs as an expenditure in the operating or Self Insurance Fund.

Funding Policy—Authorization for the Town to pay retiree health insurance premiums was enacted by union contracts, which are approved by the Town Board. Police participants are not required to contribute to postretirement healthcare benefits. Non-police participants with less than 15 years of service are required to contribute on a sliding scale based on years of service. Medical benefits are provided for the life of the retiree and eligible dependents; however, such medical benefits cease upon the death of the retiree.

The Town’s annual post employment benefit (“OPEB”) cost is calculated based on the annual required contributions (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost, the amount actually contributed to the plan, and the changes in the Town’s net OPEB obligation as of December 31, 2011.

	2011	2010
Annual required contribution	\$ 809,019	\$ 1,032,690
Interest on net OPEB obligation	65,774	46,638
Adjustment to annual required contribution	<u>(76,767)</u>	<u>(84,701)</u>
Annual OPEB costs (expense)	798,026	994,627
Contributions made	<u>(449,534)</u>	<u>(433,644)</u>
Increase in net OPEB obligation	348,492	560,983
Net OPEB obligation—beginning of year	<u>1,644,369</u>	<u>1,083,386</u>
Net OPEB obligation—end of year	<u>\$ 1,992,861</u>	<u>\$ 1,644,369</u>

Funding Status and Funding Progress—As of January 1, 2011, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$12,228,774.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of December 31, 2011, the Town has had two actuarial valuation performed. Accordingly, information from the study is presented in the Town’s Schedule of Funding Progress and the Schedule of the Town’s Contributions.

The Town’s Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
As of 1/1/2011	\$ -	\$ 12,228,774	\$ 12,228,774	0.0%	\$ 885,563	1380.9%
As of 1/1/2008	-	13,891,968	13,891,968	0.0%	705,170	1970.0%

The Schedule of the Town’s Contributions is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2011	\$ 809,019	\$ 449,534	55.6%
2010	1,032,690	433,644	42.0%
2009	983,843	397,991	40.5%

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. The projection of benefits does not incorporate the potential effect of a change in the pattern of cost sharing between the employer and plan members in the future. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2011 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a valuation and measurement date of January 1, 2011. The expected investment rate of return on employer’s assets is 4%, which is a change from the prior valuation and measurement date of January 1, 2008 expected investment rate of return on an employer’s assets of 4.25%. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Town does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer’s assets. Decrements for mortality, retirement, disability and termination are those developed in the report “*Development of Recommended Actuarial Assumptions for New York State/ SUNY GASB 45*” prepared by the Department of Civil Service’s actuarial consultants. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar basis, therefore the remaining amortization period at December 31, 2011 was twenty-six years.

12. LENGTH OF SERVICE AWARDS PROGRAM (“LOSAP”)

The Town established a defined benefit LOSAP for the active volunteer firefighters of Town Line Volunteer Fire Department, Inc., Twin District Volunteer Fire Company, Inc. and Bowmansville Volunteer Fire Association, Inc. The program took effect on January 1, 1992. The program was established pursuant to Article 11-A of the General Municipal Law. The program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters. The Town is the sponsor of the program.

Program Description

Participation, vesting and service credit—Active volunteer firefighters who have reached the age of 18 and have completed 1 year of firefighting service are eligible to participate in the program. Participants acquire a non-forfeitable right to a service award after being credited with 5 years of service credit or upon attaining the program’s entitlement age. The program’s entitlement age is 62. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. A participant may also receive credit for 5 years of firefighting service rendered prior to the establishment of the program.

Benefits—A participant’s benefit under the program is the actuarial equivalent of \$20 per year of service credit. The number of years of service credit used to compute the benefit cannot exceed forty. Except for of disability or death, benefits are payable when a participant reaches entitlement age. The program provides statutorily mandated death and disability benefits.

Fiduciary Investment and Control

Service credit is determined by the governing board of the sponsor, based on information certified to the governing board by each fire company having members who participate in the program. Each fire company must maintain all required records on forms prescribed by the governing board.

The Town of Lancaster is the sponsor of the plan. The Town has retained and designated Hometown Insurance/RSA Consultants to assist in the administration of the program. The designated program administrator’s functions include administration of the plan, updating census from information furnished by the sponsor, coordinating the actuarial services, adopting needed updates and plan modifications, preparing reports and invoices to sponsor for normal cost and amortization of past service costs, administration of benefits to eligible participants and furnishing complete accounting to the sponsor as well as handling all required filing for the plan. The Town of Lancaster Town Board must approve disbursements of program assets for the payment of benefits or administrative expenses in advance.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. The trust agreement is dated January 1, 1992.

Authority to invest program assets is vested in Hometown Insurance/RSA Consultants, subject to restrictions in the program document, program assets are invested in accordance with a statutory “prudent person” rule. Investments are made in products that have a guaranteed rate of return.

The sponsor is required to retain an actuary to determine the amount of the sponsor’s contributions to the plan. The actuary retained by the sponsor for this purpose is Harbridge Consulting Group LLC. Portions of the following information are derived from a report prepared by the actuary.

Program Financial Condition

Assets and Liabilities

Actuarial present value of benefits earned at December 31, 2011			\$ 3,784,102
Less: Assets available for benefits			
	<u>% of total</u>		
<i>Cash and short-term investments:</i>			
Cash & money market	5.1%	\$	139,329
<i>Other assets:</i>			
Annuities and insurance contracts	94.9%		<u>2,604,399</u>
Total net assets available for benefits			<u>2,743,728</u>
Total unfunded benefits			<u>\$ 1,040,374</u>

Receipts and Disbursements

Plan net assets, January 1, 2011		\$ 2,547,960
Changes during the year:		
Add: Plan contributions	\$ 266,145	
Investment income earned	78,962	
Insurance policy proceeds	62,199	
Whole life insurance policy premiums	(24,953)	
Term life insurance policy premiums	(10,292)	
Changes in cash value of life insurance	(1,733)	
Administrative fees	(4,900)	
Less: Plan benefit withdrawals	<u>(169,660)</u>	
Net change		<u>195,768</u>
Plan net assets, December 31, 2011		<u>\$ 2,743,728</u>

Contributions and Administrative Fees

The Town contributed \$266,145 to the Program during the year ended December 31, 2011. Administrative costs are paid within the trust fund.

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the sponsor's contribution is the Unit Credit Cost method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits is based on an assumed rate of return on investment is 5.25%.

Mortality Tables used for retirement are based on the 1994 Group Annuity Reserving Table for males.

The fair value of these program assets, which are accounted for within the Town's Agency Funds, as of December 31, 2011 is \$2,743,728.

13. LABOR RELATIONS

Town employees are represented by four bargaining units with the balance governed by Town Board rules and regulations. The Cayuga Club Police Benevolent Association, Lancaster Dispatcher Employee Association, CSEA Blue Collar and CSEA White Collar all had contracts through December 31, 2011.

14. NET ASSETS AND FUND BALANCE

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

- ◆ ***Invested in capital assets, net of related debt***—This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

The following schedule presents a reconciliation of capital assets (net of accumulated depreciation), net of total indebtedness to net assets invested in capital assets, net of related debt.

Capital assets, net of accumulated depreciation		\$ 58,555,946
Less debt issued for capital acquisition:		
Serial bonds	\$ (1,900,000)	
Due to other governments	(33,000)	
Bond anticipation notes	<u>(12,385,000)</u>	\$ (14,318,000)
Add unspent proceeds of debt issued	<u>2,460,686</u>	<u>(11,857,314)</u>
Net assets invested in capital assets, net of related debt		<u>\$ 46,698,632</u>

- ◆ ***Restricted net assets***—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation. The Town reported restricted debt service in the amount of \$320,846.
- ◆ ***Unrestricted net assets***—This category represents net assets of the Town not restricted for any project or other purpose.

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

- ◆ ***Prepays***—Represents amounts not available for current expenses as related current assets have been utilized to prepay certain costs.

In the fund financial statements, restricted fund balances have external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation. Restrictions of the Town at December 31, 2011, and include:

- ◆ ***Restricted for Debt***—Represents resources legally restricted for the payment of debt service.

In the fund financial statements, assigned amounts are subject to a purpose constraint that represents an intended use established by the Town Board, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the

General Fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2011, the following balances were considered to be assigned:

- ◆ *Assigned to Subsequent Year Expenditures*—Represents funds to be used to assist in supporting the subsequent year authorized appropriations.
- ◆ *Assigned to Encumbrances*—Represents funds accumulated for commitments related to unperformed contracts or purchase orders for goods or services.

The Town considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of December 31, 2011, the Town reported the following significant encumbrances:

Purpose	Amount
Bobcat Track Loader	\$ 51,323

The Town assigned \$73,358 of fund balance for encumbrances at December 31, 2011.

- ◆ *Assigned to Specific Use*—Represents remaining fund balance of the special revenue funds assigned to that funds specific purpose.

The Town’s policy is to expend fund balances in the following order: non-spendable fund balance (if available), restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance.

15. DEFICIT FUND BALANCES

At December 31, 2011, the Town’s Capital Project Fund reported a fund deficit of \$9,924,314. The Town anticipates that this deficit will be remedied through the future issuance of long-term debt.

16. RISK FINANCING AND CONTINGENCIES

Risk Financing—The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, vehicle liability, injuries to employees; and natural disasters. The Town purchases insurance for: automobile, general, professional liability and umbrella liability. For the year ended December 31, 2011, automobile insurance is limited to \$1 million per accident. The general liability insurance is limited to \$1 million per occurrence, and an aggregate \$3 million for general and products-completed operations hazards. The professional liability is limited to \$1 million per occurrence and in aggregate. The umbrella liability insurance is limited to \$15 million per occurrence and in aggregate.

Medical Self-Insurance—On May 1, 2008, the Town began self-insuring for medical claims. Claims are processed through Blue Cross Blue Shield of Western New York for a fee per covered person, per month. However, the responsibility of insuring claims lies with the Town.

In order to insure against larger than expected health care losses associated with the self insurance plan the Town has entered into a Stop Loss Agreement with the HM Life Insurance Company of New York. This agreement includes a “specific deductible” for each covered person. This deductible per covered person is \$90,000 per year, with a lifetime deductible \$4,920,000. This will cover the individual up to a lifetime maximum specific benefit of \$5,000,000. Above this dollar amount the

Town will be liable for the claim. In return the Town pays a premium for the stop loss insurance, which amounted to \$220,814 during the year ended December 31, 2011. The plan's coverage extends to both medical and prescription claims.

The Town is liable for annual claims under \$90,000 for each individual member covered by the Town's self insured plan. The maximum aggregate benefit available to the Town per policy term, which is a one year period, is \$1,000,000. The Town would also be liable for claims over \$5,000,000 over the course of each covered member's lifetime.

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

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

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

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 17, 2012, which is the date that financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

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

	Special Revenue					Miscellaneous Special Revenue	Total Nonmajor Governmental Funds
	General Town Outside Village	Highway Townwide	Refuse District	Lighting District	Consolidated Water District		
ASSETS							
Cash and cash equivalents	\$ 125,090	\$ 127,654	\$ 628,026	\$ 248,292	\$ 208,637	\$ 760,524	\$2,098,223
Receivables	172,114	-	1,480	-	-	24,506	198,100
Due from other funds	-	-	-	-	22,493	-	22,493
Due from other governments	11,500	-	-	-	-	-	11,500
Prepays	12,055	-	-	-	-	-	12,055
Total assets	<u>\$ 320,759</u>	<u>\$ 127,654</u>	<u>\$ 629,506</u>	<u>\$ 248,292</u>	<u>\$ 231,130</u>	<u>\$ 785,030</u>	<u>\$2,342,371</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 6,333	\$ 420	\$ 174,282	\$ 23,997	\$ -	\$ 770	\$ 205,802
Accrued liabilities	9,365	-	-	-	-	-	9,365
Total liabilities	<u>15,698</u>	<u>420</u>	<u>174,282</u>	<u>23,997</u>	<u>-</u>	<u>770</u>	<u>215,167</u>
Fund balances:							
Nonspendable	12,055	-	-	-	-	-	12,055
Restricted:							
Debt service	-	-	-	-	135,887	-	135,887
Assigned:							
Subsequent year's expenditures	75,000	25,000	110,000	35,000	20,000	78,735	343,735
Specific use	218,006	102,234	345,224	189,295	75,243	705,525	1,635,527
Total fund balances	<u>305,061</u>	<u>127,234</u>	<u>455,224</u>	<u>224,295</u>	<u>231,130</u>	<u>784,260</u>	<u>2,127,204</u>
Total liabilities and fund balances	<u>\$ 320,759</u>	<u>\$ 127,654</u>	<u>\$ 629,506</u>	<u>\$ 248,292</u>	<u>\$ 231,130</u>	<u>\$ 785,030</u>	<u>\$2,342,371</u>

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

	Special Revenue						Total Nonmajor Governmental Funds
	General		Refuse District	Lighting District	Consolidated Miscellaneous		
	Town Village	Outside Townwide			Water District	Special Revenue	
REVENUES							
Real property taxes	\$ 186,179	\$ 32,489	\$ 2,182,916	\$ 309,721	\$ 615,954	\$ -	\$3,327,259
Other property tax items	8,409	1,445	-	-	-	-	9,854
Non-property tax items	325,883	-	-	-	-	-	325,883
Departmental income	32,902	-	34,443	-	-	-	67,345
Intergovernmental charges	23,000	-	-	-	5,515	-	28,515
Use of money and property	44,170	621	5,943	1,352	5,257	2,998	60,341
Licenses and permits	145,796	-	-	-	-	-	145,796
Miscellaneous	-	-	-	-	70,812	274,953	345,765
State aid	148,349	-	-	-	-	19,890	168,239
Total revenues	<u>914,688</u>	<u>34,555</u>	<u>2,223,302</u>	<u>311,073</u>	<u>697,538</u>	<u>297,841</u>	<u>4,478,997</u>
EXPENDITURES							
Current:							
General government support	-	133	341	720	1,178	-	2,372
Public safety	430,451	-	-	-	-	27,414	457,865
Health	3,070	-	-	-	-	-	3,070
Transportation	-	53,343	-	245,902	-	-	299,245
Culture and recreation	-	-	-	-	-	105,387	105,387
Home and community services	329,921	-	2,221,070	-	14,890	14,724	2,580,605
Employee benefits	132,757	61	-	-	-	-	132,818
Debt service:							
Principal	-	31,000	-	-	205,000	-	236,000
Interest	-	4,808	-	-	110,775	-	115,583
Total expenditures	<u>896,199</u>	<u>89,345</u>	<u>2,221,411</u>	<u>246,622</u>	<u>331,843</u>	<u>147,525</u>	<u>3,932,945</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,489</u>	<u>(54,790)</u>	<u>1,891</u>	<u>64,451</u>	<u>365,695</u>	<u>150,316</u>	<u>546,052</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	37,613	37,613
Transfers out	<u>(49,658)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(375,000)</u>	<u>(120,277)</u>	<u>(544,935)</u>
Total other financing sources and uses	<u>(49,658)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(375,000)</u>	<u>(82,664)</u>	<u>(507,322)</u>
Net change in fund balances	(31,169)	(54,790)	1,891	64,451	(9,305)	67,652	38,730
Fund balances - beginning	<u>336,230</u>	<u>182,024</u>	<u>453,333</u>	<u>159,844</u>	<u>240,435</u>	<u>716,608</u>	<u>2,088,474</u>
Fund balances - ending	<u>\$ 305,061</u>	<u>\$ 127,234</u>	<u>\$ 455,224</u>	<u>\$ 224,295</u>	<u>\$ 231,130</u>	<u>\$ 784,260</u>	<u>\$2,127,204</u>

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TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—General Fund—Town Outside Village
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUE				
Real property taxes	\$ 186,179	\$ 186,179	\$ 186,179	\$ -
Real property tax items	2,000	2,000	8,409	6,409
Non-property tax items	300,000	300,000	325,883	25,883
Departmental income	29,000	29,000	32,902	3,902
Intergovernmental charges	30,000	30,000	23,000	(7,000)
Use of money and property	51,500	51,500	44,170	(7,330)
Licenses and permits	142,000	142,000	145,796	3,796
Miscellaneous	200	200	-	(200)
State aid	125,000	125,000	148,349	23,349
Total revenues	<u>865,879</u>	<u>865,879</u>	<u>914,688</u>	<u>48,809</u>
EXPENDITURES				
Current:				
Public safety	438,988	432,308	430,451	1,857
Health	3,300	3,300	3,070	230
Home and community services	312,954	332,304	329,921	2,383
Employee benefits	132,637	134,057	132,757	1,300
Total expenditures	<u>887,879</u>	<u>901,969</u>	<u>896,199</u>	<u>5,770</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(22,000)</u>	<u>(36,090)</u>	<u>18,489</u>	<u>54,579</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(68,000)</u>	<u>(53,910)</u>	<u>(49,658)</u>	<u>4,252</u>
Total other financing sources (uses)	<u>(68,000)</u>	<u>(53,910)</u>	<u>(49,658)</u>	<u>4,252</u>
Net change in fund balances	(90,000)	(90,000)	(31,169)	58,831
Fund balances - beginning	<u>336,230</u>	<u>336,230</u>	<u>336,230</u>	<u>-</u>
Fund balances - ending	<u>\$ 246,230</u>	<u>\$ 246,230</u>	<u>\$ 305,061</u>	<u>\$ 58,831</u>

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Highway Fund—Townwide
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 32,489	\$ 32,489	\$ 32,489	\$ -
Other property tax items	1,600	1,600	1,445	(155)
Use of money and property	1,000	1,000	621	(379)
Total revenues	<u>35,089</u>	<u>35,089</u>	<u>34,555</u>	<u>(534)</u>
EXPENDITURES				
Current:				
General government support	133	133	133	-
Transportation	48,000	89,662	53,343	36,319
Employee benefits	1,148	1,148	61	1,087
Debt service:				
Principal	31,000	31,000	31,000	-
Interest	4,808	4,808	4,808	-
Total expenditures	<u>85,089</u>	<u>126,751</u>	<u>89,345</u>	<u>37,406</u>
Excess (deficiency) of revenues over (under) expenditures	(50,000)	(91,662)	(54,790)	36,872
Fund balances - beginning	182,024	182,024	182,024	-
Fund balances - ending	<u>\$ 132,024</u>	<u>\$ 90,362</u>	<u>\$ 127,234</u>	<u>\$ 36,872</u>

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Refuse District
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 2,182,916	\$ 2,182,916	\$ 2,182,916	\$ -
Departmental income	20,000	20,000	34,443	14,443
Use of money and property	<u>8,000</u>	<u>8,000</u>	<u>5,943</u>	<u>(2,057)</u>
Total revenues	<u>2,210,916</u>	<u>2,210,916</u>	<u>2,223,302</u>	<u>12,386</u>
EXPENDITURES				
Current:				
General government support	341	341	341	-
Home and community services	<u>2,275,575</u>	<u>2,275,575</u>	<u>2,221,070</u>	<u>54,505</u>
Total expenditures	<u>2,275,916</u>	<u>2,275,916</u>	<u>2,221,411</u>	<u>54,505</u>
Excess (deficiency) of revenues over (under) expenditures	(65,000)	(65,000)	1,891	66,891
Fund balances - beginning	<u>453,333</u>	<u>453,333</u>	<u>453,333</u>	<u>-</u>
Fund balances - ending	<u>\$ 388,333</u>	<u>\$ 388,333</u>	<u>\$ 455,224</u>	<u>\$ 66,891</u>

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Lighting District
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 309,721	\$ 309,721	\$ 309,721	\$ -
Use of money and property	1,000	1,000	1,352	352
Total revenues	<u>310,721</u>	<u>310,721</u>	<u>311,073</u>	<u>352</u>
EXPENDITURES				
Current:				
General government support	721	721	720	1
Transportation	<u>310,000</u>	<u>310,000</u>	<u>245,902</u>	<u>64,098</u>
Total expenditures	<u>310,721</u>	<u>310,721</u>	<u>246,622</u>	<u>64,099</u>
Excess of revenues over expenditures	-	-	64,451	64,451
Fund balances - beginning	<u>159,844</u>	<u>159,844</u>	<u>159,844</u>	-
Fund balances - ending	<u>\$ 159,844</u>	<u>\$ 159,844</u>	<u>\$ 224,295</u>	<u>\$ 64,451</u>

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Consolidated Water District
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 615,954	\$ 615,954	\$ 615,954	\$ -
Intergovernmental charges	5,000	5,000	5,515	515
Use of money and property	3,000	3,000	5,257	2,257
Miscellaneous	-	-	70,812	70,812
Total revenues	<u>623,954</u>	<u>623,954</u>	<u>697,538</u>	<u>73,584</u>
EXPENDITURES				
Current:				
General government support	1,179	1,179	1,178	1
Home and community services	15,000	15,000	14,890	110
Debt service:				
Principal	205,000	205,000	205,000	-
Interest	110,775	110,775	110,775	-
Total expenditures	<u>331,954</u>	<u>331,954</u>	<u>331,843</u>	<u>111</u>
Excess (deficiency) of revenues over (under) expenditures	<u>292,000</u>	<u>292,000</u>	<u>365,695</u>	<u>73,695</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(375,000)</u>	<u>(375,000)</u>	<u>(375,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(375,000)</u>	<u>(375,000)</u>	<u>(375,000)</u>	<u>-</u>
Net change in fund balances	(83,000)	(83,000)	(9,305)	73,695
Fund balances - beginning	<u>240,435</u>	<u>240,435</u>	<u>240,435</u>	<u>-</u>
Fund balances - ending	<u>\$ 157,435</u>	<u>\$ 157,435</u>	<u>\$ 231,130</u>	<u>\$ 73,695</u>

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Miscellaneous Special Revenue
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Use of money and property	\$ 2,565	\$ 2,565	\$ 2,998	\$ 433
Miscellaneous	95,500	95,500	274,953	179,453
State aid	-	-	19,890	19,890
Total revenues	<u>98,065</u>	<u>98,065</u>	<u>297,841</u>	<u>199,776</u>
EXPENDITURES				
Current:				
Public safety	14,800	34,475	27,414	7,061
Culture and recreation	2,000	107,000	105,387	1,613
Home and community services	<u>40,000</u>	<u>40,000</u>	<u>14,724</u>	<u>25,276</u>
Total expenditures	<u>56,800</u>	<u>181,475</u>	<u>147,525</u>	<u>33,950</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,265</u>	<u>(83,410)</u>	<u>150,316</u>	<u>233,726</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	37,613	(37,613)
Transfers out	<u>(120,000)</u>	<u>(120,277)</u>	<u>(120,277)</u>	<u>-</u>
Total other financing sources (uses)	<u>(120,000)</u>	<u>(120,277)</u>	<u>(82,664)</u>	<u>(37,613)</u>
Net change in fund balances	(78,735)	(203,687)	67,652	196,113
Fund balances - beginning	<u>716,608</u>	<u>716,608</u>	<u>716,608</u>	<u>-</u>
Fund balances - ending	<u>\$ 637,873</u>	<u>\$ 512,921</u>	<u>\$ 784,260</u>	<u>\$ 196,113</u>

TOWN OF LANCASTER, NEW YORK
Fiduciary Fund
Schedule of Changes in Assets and Liabilities—Agency Fund
Year Ended December 31, 2011

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash	\$ 165,523	\$ 12,479,483	\$ 12,442,834	\$ 202,172
Due from other funds	-	11,510,292	11,509,950	342
Service award program assets	<u>2,547,960</u>	<u>407,306</u>	<u>211,538</u>	<u>2,743,728</u>
Total assets	<u>\$ 2,713,483</u>	<u>\$ 24,397,081</u>	<u>\$ 24,164,322</u>	<u>\$ 2,946,242</u>
LIABILITIES				
Agency liabilities	\$ 165,523	\$ 13,387,345	\$ 13,350,354	\$ 202,514
Service awards	<u>2,547,960</u>	<u>407,306</u>	<u>211,538</u>	<u>2,743,728</u>
Total liabilities	<u>\$ 2,713,483</u>	<u>\$ 13,794,651</u>	<u>\$ 13,561,892</u>	<u>\$ 2,946,242</u>

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Certified Public Accountants

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

Honorable Town Board
Town of Lancaster, New York:

We have audited the financial statements of the Town of Lancaster, New York (the "Town") as of and for the year ended December 31, 2011, and have issued our report thereon May 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02 that we consider to be significant deficiencies over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town in a separate letter dated May 17, 2012.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Town's responses and, accordingly, we express no opinion on them.

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

Drescher & Malecki LLP

May 17, 2012

TOWN OF LANCASTER, NEW YORK
Schedule of Findings
Year Ended December 31, 2011

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

Finding 2011-1—Cash Receipts

Criteria—A formal and consistent cash receipts policy should be in place for all departments of the Town. This policy should detail the comprehensive cash receipts procedures and include adequate segregation of duties, a pre-numbering system of cash receipts and the maintenance cash receipt log kept to ensure that all money being received is being recorded.

Condition—During our procedures it was noted that not all department had a formal procedure in place for receipts. Additionally, the Town does not require a pre-numbering system for cash receipts or a cash receipt log in each department that receives cash.

Cause—The Town lacks a formal and consistent cash receipts policy.

Effect—The absence of adequate controls surrounding the cash receipt process of the Town creates the opportunity for fraud and the potential for a misstatement of the Town's revenue.

Recommendation—We recommend that the Town develops a cash receipt policy that details the Town-wide cash receipts procedures to include adequate segregation of duties, a pre-numbering system of cash receipts and the maintenance cash receipt log.

Management's Corrective Action Plan—Management will determine the feasibility of a Town-wide cash receipts policy.

Finding 2011-2—Information Technology Controls

Criteria—The Town should have a formal information security policy that addresses computer and financial software access. Further, the Town should have a formal written backup policy and disaster recovery plan that address how the Town would function in the event of a disaster. Additionally, personnel with accounting responsibilities should not have administrator access to the financial accounting software and the change management of user accounts is maintained by someone independent of the bookkeeping process. Finally, the Town should periodically perform an information technology risk assessment to mitigate the Town's risk to any information technology threats and address any existing deficiencies.

Condition—Currently, the Town does not have a formal information security policy that addresses computer and financial software access. The Town does not have a formal written backup policy or disaster recovery plan that detail what would happen and how the Town would function in the event of a disaster. Additionally, personnel with accounting responsibilities have administrator access to the financial accounting software and the change management of user accounts is maintained by an individual involved in the bookkeeping process. Finally, the Town does not perform a formal, periodic information technology risk assessment.

Cause—The Town does not have policies or procedures in place regarding information security, passwords, backups, disaster recovery, and formal informational technology risk assessments.

Effect—The absence of a formal information security policy prevents the Town from holding employees accountable should they use their computers for personal business or accessing inappropriate websites. In addition, not having a formal policy regarding financial data increases the risk of misappropriation of this data. The Town does not have a formal written backup policy, and although backups are performed, if the employee who performs the backups were to become unavailable for an extended length of time, other employees would not have a written guide to back up the system. A formal written disaster recovery policy is essential in the event of a disaster so that the Town will be able to function in the event of this scenario. The current access to the financial system by those personnel involved in bookkeeping functions exposes the Town to risk of fraudulent reporting and the potential for the misappropriation of assets. Finally, the absence of formal information technology risk assessments increases the Town's exposure to risk from internal and external information technology risks.

Recommendation—The Town should create and implement formal written policies or procedures regarding information security, passwords, backups, disaster recovery, and formal information technology risk assessments.

Management's Corrective Action Plan—Management plans on formalizing its informal policies and will consider assessing its information technology system.