

**TOWN OF LANCASTER,
NEW YORK**

*Basic Financial Statements, Required
Supplementary Information, and Supplemental
Schedules for the Year Ended December 31, 2012
and Independent Auditors' Reports*

TOWN OF LANCASTER, NEW YORK

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FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Town Board
Town of Lancaster, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lancaster, New York (the "Town"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position thereof and the respective budgetary comparisons for the General, Police, Highway-Town Outside Village, Fire Protection

District and Refuse District Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the foregoing 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.

Other Information

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 non-major financial schedules and individual fund financial 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.

The combining non-major financial schedules and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major financial schedules and individual fund financial schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



June 4, 2013

TOWN OF LANCASTER, NEW YORK
Management's Discussion and Analysis
For the Year Ended December 31, 2012

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, 2012. 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 \$50,797,114 (net position). However, the Town has a deficit net unrestricted position of \$2,415,540 at December 31, 2012.
- ◆ The Town's Governmental Activities increased its net position by \$1,413,654 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 balance of \$13,030,232, an improvement of \$16,394,670 in comparison with the prior year's fund deficit of \$3,364,438. The most significant factor in the increase in fund balance was the issuance of long-term debt in the Capital Projects Fund.
- ◆ The General Fund reported a net increase in fund balance this year of \$640,887. At December 31, 2012, unassigned fund balance for the General Fund was \$1,214,143, or 16.5 percent of General Fund expenditures.
- ◆ The Town's total bonded indebtedness increased by \$16,800,000. During the current year, the Town made scheduled debt payments due totaling \$1,290,000 and issued bonds for \$18,090,000. The Town's bond anticipation note debt decreased by \$12,385,000 during 2012 as a result of the issuance of bonds.

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 position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position 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 12-13 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 for the General, Police, Highway – Town Outside Village, Fire Protection District, Refuse District and Capital Projects Funds, all of which are considered to be major funds. Data from the other five 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 each major fund, except the Capital Projects Fund, to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 14-22 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 23-25 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 26 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 27-50 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 \$50,797,114 at the close of the 2012 fiscal year, as compared to \$49,383,460 at the close of the 2011 fiscal year.

Table 1 – Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Current assets	\$ 15,272,132	\$ 10,677,519
Capital assets	<u>62,073,376</u>	<u>58,555,946</u>
Total assets	<u>77,345,508</u>	<u>69,233,465</u>
Current liabilities	1,503,769	13,433,860
Long-term liabilities	<u>25,044,625</u>	<u>6,416,145</u>
Total liabilities	<u>26,548,394</u>	<u>19,850,005</u>
Invested in capital assets, net of related debt	47,470,826	46,698,632
Restricted	5,741,828	320,846
Unrestricted	<u>(2,415,540)</u>	<u>2,363,982</u>
Total net position	<u>\$ 50,797,114</u>	<u>\$ 49,383,460</u>

The largest portion of the Town’s net position 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 position represents resources that are subject to external restrictions on how they may be used. The Town has a deficit net unrestricted position at December 31, 2012. This deficit reflects certain long-term liabilities (e.g. compensated absences and other post-employment benefits) that are funded as they come due.

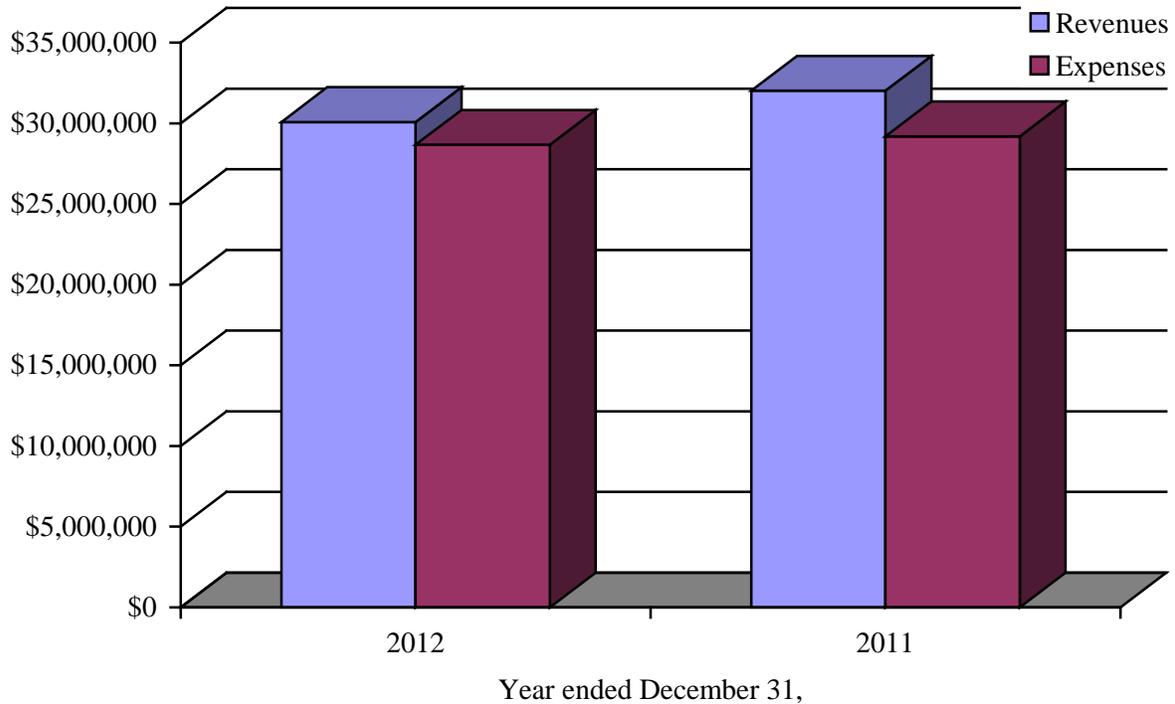
Table 2, as presented below, shows the changes in net assets for the years ended December 31, 2012 and 2011:

Table 2 – Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended December 31,	
	2012	2011
Program revenues:		
Charges for services	\$ 2,044,934	\$ 2,187,993
Operating grants and contributions	141,626	243,180
Capital grants and contributions	270,001	1,174,197
General revenues	<u>27,629,615</u>	<u>28,424,162</u>
Total revenues	<u>30,086,176</u>	<u>32,029,532</u>
Total expenses	<u>28,672,522</u>	<u>29,199,826</u>
Change in net assets	1,413,654	2,829,706
Net position—beginning	<u>49,383,460</u>	<u>46,553,754</u>
Net position—ending	<u>\$ 50,797,114</u>	<u>\$ 49,383,460</u>

As shown below in Figure 1, revenues for the year ended December 31, 2012 decreased 6.1 percent, while expenses decreased by 1.8 percent in comparison to the prior year.

Figure 1 – Comparison of Revenues and Expenses



A summary of sources of revenues for the years ended December 31, 2012 and 2011 is presented below in Table 3:

Table 3 – Summary of Sources of Revenues

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Charges for services	\$ 2,044,934	\$ 2,187,993	\$ (143,059)	(6.5)
Operating grants and contributions	141,626	243,180	(101,554)	(41.8)
Capital grants and contributions	270,001	1,174,197	(904,196)	(77.0)
Property and other tax items	21,670,980	21,334,508	336,472	1.6
Non-property taxes	4,362,565	4,231,571	130,994	3.1
Mortgage tax	864,346	741,809	122,537	16.5
Use of money and property	198,436	149,420	49,016	32.8
Miscellaneous	411,393	1,798,615	(1,387,222)	(77.1)
Unrestricted state aid	121,895	168,239	(46,344)	(27.5)
Total revenues	\$ 30,086,176	\$ 32,029,532	\$(1,943,356)	(6.1)

As presented in Table 3, the Town’s most significant source of revenues is property and other tax items, which accounts for \$21,670,980 for the year ended December 31, 2012 and \$21,334,508, for the year ended December 31, 2011. The next largest source of revenue for the year ended December 31, 2012 was non-property taxes of \$4,362,565, as compared to \$4,231,571 for the year ended December 31, 2011. Other key elements of Table 3 are as follows:

- *Property and other tax items*—increased by \$336,472 from the previous fiscal year mainly due to an increase in payments in lieu of taxes from business entities.
- *Non-property taxes*—increased by \$130,994 from the year ended December 31, 2012 due to an increase in sales taxes.
- *Charges for services*—decreased by \$143,059 from the prior year. This is mainly due to a one-time increase in insurance recoveries for unanticipated general government support repair costs in the prior year.
- *Capital grants and contributions*—decreased by \$904,196 from the prior year which is primarily due to a one-time federal grant for trail construction in 2011. The construction on the trail was completed in 2011.
- *Miscellaneous*—decreased by \$1,387,222 from the previous fiscal year due to the receipt of aid related to a one-time reimbursement of the Town’s rails-to-trails capital project in 2011.

A summary of program expenses for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 4:

Table 4 – Summary of Program Expenses

	<u>Year ended December 31,</u>		<u>Increase/(decrease)</u>	
	<u>2012</u>	<u>2011</u>	<u>Dollars</u>	<u>Percent</u>
General government support	\$ 4,066,207	\$ 4,648,706	\$ (582,499)	(12.5)
Public safety	13,801,784	12,876,553	925,231	7.2
Health	117,668	117,427	241	0.2
Transportation	3,926,842	4,547,946	(621,104)	(13.7)
Culture and recreation	2,962,785	2,528,588	434,197	17.2
Home and community services	3,494,920	4,181,278	(686,358)	(16.4)
Interest on debt	302,316	299,328	2,988	1.0
Total program expenses	<u>\$ 28,672,522</u>	<u>\$ 29,199,826</u>	<u>\$ (527,304)</u>	(1.8)

As presented in Table 4, the Town’s significant expense items for the year ended December 31, 2012 were public safety of \$13,801,784 (primarily police and fire services), home and community services of \$3,494,920 (primarily sanitation services and depreciation of infrastructure), general government support of \$4,066,207 and transportation of \$3,926,842. Similarly, for the year ended December 31, 2011 significant expenses were public safety of \$12,876,553, home and community services of \$4,181,278, general government support of \$4,648,706 and transportation of \$4,547,946.

Other key elements of Table 4 are as follows:

- *General government support*—decreased by \$582,499 from the year ended December 31, 2011 largely due to an increase in certain expenditures that did not meet the Town’s criteria for capitalization in the prior year, which did not reoccur in the current year.
- *Public safety*—increased by \$925,231 from the prior year. This increase is mainly due to increases in expenses related to employee benefits (primarily retirement, healthcare and workers compensation) during 2012.
- *Home and community services*—decreased by \$686,358 from the prior year, which was largely due to higher expenses related to water line maintenance in the prior year.

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 balance of \$13,030,232, an improvement of \$16,394,670 in comparison with the prior year’s combined fund deficit of \$3,364,438. Town’s governmental funds reported a combined ending fund balance of \$13,030,232, of which approximately 42.7 percent (\$5,558,869) constitutes either *unassigned fund balance or fund balance assigned for specific use*, which is available for spending in accordance with the fund’s purpose. The remainder of fund balance is *nonspendable, restricted, or assigned* for other purposes 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 \$2,296,702. Approximately 52.9 percent (\$1,214,143) of this amount is *unassigned fund balance*. Total fund balance increased by \$640,887 as compared to the prior fiscal year end.
- The Town’s Police Fund ending fund balance was \$2,544,559. Approximately 68.8 percent (\$1,751,442) of this amount is *fund balance assigned to specific use*. The Police Fund, fund balance increased by \$425,101 during 2012.
- The Town’s Highway Fund – Town Outside Village ending fund balance was \$1,066,478. Approximately 81.7 percent (\$871,281) of this amount is *fund balance assigned to specific use*. The Highway Fund – Town Outside Village fund balance increased by \$535,916 during 2012.
- The Town’s Fire Protection District Fund ending fund balance was \$146,481. All of which is *fund balance assigned to specific use*. The Fire Protection District Fund, fund balance increased by \$19,644 during 2012.
- The Town’s Refuse District Fund ending fund balance was \$431,446. Approximately 76.8 percent (\$331,446) of this amount is *fund balance assigned to specific use*. The Refuse District Fund, fund balance decreased by \$23,778 during 2012.

- The Town's Capital Project Fund ending fund balance was a \$4,539,410. The increase of \$14,463,724 during 2012 was a result of the conversion of short term borrowing to long term borrowing to finance ongoing projects.

A summary of the Town's major funds' fund balance is provided in Table 5.

Table 5—Major Funds' Fund Balance (Deficit)

	General Fund	Police Fund	Highway TOV Fund	Fire Protection Fund	Refuse District Fund	Capital Projects Fund
Net change in fund balances (deficit)	\$ 640,887	\$ 425,101	\$ 535,916	\$ 19,644	\$ (23,778)	\$ 14,463,724
Unassigned or assigned to specific use	1,214,143	1,751,442	871,281	146,481	331,446	4,539,410
Total fund balance	2,296,702	2,544,559	1,066,478	146,481	431,446	4,539,410
Percentage unassigned or assigned to specific use	52.9%	68.8%	81.7%	100%	76.8%	100%

General Fund Budgetary Highlights

During the year there was a \$223,793 net increase in General Fund appropriations between the original and final amended budget. The main component of the increase is a \$101,855 supplemental appropriations for general government support as a result of unanticipated repair costs.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental funds as of December 31, 2012, 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, 2012 and 2011 are presented on the following page.

Table 6—Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	2012	2011
Land	\$ 1,320,831	\$ 1,320,831
Construction in progress	3,925,894	752,094
Land improvements	1,468,838	1,535,426
Infrastructure	43,417,777	43,044,624
Buildings and improvements	10,336,698	10,450,385
Machinery and equipment	1,603,338	1,452,586
Total	<u>\$ 62,073,376</u>	<u>\$ 58,555,946</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 2012 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 5 of this report.

Debt. At December 31, 2012, the Town had total long-term debt outstanding of \$24,033,929 as compared to \$6,416,145 in the prior year. The most significant factor in this large increase in long-term debt is the conversion of prior bond anticipation notes into serial bonds during 2012. 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 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 13 of this report.

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

The unemployment rate, not seasonally adjusted, for the Buffalo-Niagara region is currently 8.5 percent. This compares to New York State's average unemployment rate of 8.6 and the national average rate of 7.8 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 2013 budget includes the appropriation of \$340,000 of fund balance in the General Fund. The General Fund tax rate is \$2.36 per thousand for the 2013 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 Position
December 31, 2012

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 6,046,132
Restricted cash and cash equivalents	6,518,123
Receivables	253,342
Deposits	17,401
Due from other governments	1,833,463
Prepays	603,671
Capital assets not being depreciated	5,246,725
Capital assets net of accumulated depreciation	<u>56,826,651</u>
Total assets	<u>77,345,508</u>
LIABILITIES	
Accounts payable	1,086,256
Accrued liabilities	415,212
Due to Agency Fund	1,267
Unearned revenue	1,034
Noncurrent liabilities:	
Due within one year	1,675,663
Due in more than one year	<u>23,368,962</u>
Total liabilities	<u>26,548,394</u>
NET POSITION	
Net investment in capital assets	47,470,826
Restricted for:	
Capital purposes	4,539,410
Debt service	1,202,418
Unrestricted	<u>(2,415,540)</u>
Total net assets	<u>\$ 50,797,114</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, 2012

Function/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Primary Governmental Activities
Primary government:					
Governmental activities:					
General government support	\$ 4,066,207	\$ 403,491	\$ 6,195	\$ -	\$ (3,656,521)
Public safety	13,801,784	1,374,991	27,915	-	(12,398,878)
Health	117,668	-	-	-	(117,668)
Transportation	3,926,842	124,667	87,695	-	(3,714,480)
Culture and recreation	2,962,785	103,554	19,821	270,001	(2,569,409)
Home and community services	3,494,920	38,231	-	-	(3,456,689)
Interest	302,316	-	-	-	(302,316)
Total primary government	<u>\$28,672,522</u>	<u>\$ 2,044,934</u>	<u>\$ 141,626</u>	<u>\$ 270,001</u>	<u>(26,215,961)</u>
General revenues:					
					21,670,980
					4,362,565
					864,346
					198,436
					411,393
					121,895
					<u>27,629,615</u>
					1,413,654
					49,383,460
					<u>\$50,797,114</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, 2012

	Special Revenue							Total Governmental Funds
	General Fund	Police Fund	Highway Fund Town Outside Village	Fire Protection District Fund	Refuse District Fund	Capital Projects Fund	Other Governmental Funds	
ASSETS								
Cash and cash equivalents	\$ 1,705,520	\$ 826,318	\$ 344,524	\$ 179,861	\$ 737,750	\$ -	\$ 1,302,856	\$ 5,096,829
Restricted cash and cash equivalents	571,834	-	98,741	-	-	5,315,705	531,843	6,518,123
Receivables	53,355	5,744	4,500	-	584	-	189,159	253,342
Due from other funds	4,527	938	338,026	-	-	-	152	343,643
Deposits	17,401	-	-	-	-	-	-	17,401
Due from other governments	35,171	1,452,020	339,886	-	-	-	6,386	1,833,463
Prepays	123,146	393,117	72,156	-	-	-	15,252	603,671
Total assets	<u>\$2,510,954</u>	<u>\$2,678,137</u>	<u>\$1,197,833</u>	<u>\$ 179,861</u>	<u>\$ 738,334</u>	<u>\$5,315,705</u>	<u>\$2,045,648</u>	<u>\$14,666,472</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 153,499	\$ 44,208	\$ 61,770	\$ 33,380	\$ 306,888	\$ 432,556	\$ 33,150	\$ 1,065,451
Accrued liabilities	59,815	89,370	69,355	-	-	-	6,305	224,845
Due to other funds	938	-	230	-	-	342,705	1,037	344,910
Deferred revenue	-	-	-	-	-	1,034	-	1,034
Total liabilities	<u>214,252</u>	<u>133,578</u>	<u>131,355</u>	<u>33,380</u>	<u>306,888</u>	<u>776,295</u>	<u>40,492</u>	<u>1,636,240</u>
Fund balances:								
Nonspendable	123,146	393,117	72,156	-	-	-	15,252	603,671
Restricted:								
Capital projects	-	-	-	-	-	4,539,410	-	4,539,410
Debt service	571,834	-	98,741	-	-	-	531,843	1,202,418
Assigned:								
Subsequent year's expenditures	340,000	400,000	-	-	100,000	-	213,985	1,053,985
Encumbrances	47,579	-	24,300	-	-	-	-	71,879
Specific use	-	1,751,442	871,281	146,481	331,446	-	1,244,076	4,344,726
Unassigned	<u>1,214,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,214,143</u>
Total fund balances	<u>2,296,702</u>	<u>2,544,559</u>	<u>1,066,478</u>	<u>146,481</u>	<u>431,446</u>	<u>4,539,410</u>	<u>2,005,156</u>	<u>13,030,232</u>
Total liabilities and fund balances	<u>\$2,510,954</u>	<u>\$2,678,137</u>	<u>\$1,197,833</u>	<u>\$ 179,861</u>	<u>\$ 738,334</u>	<u>\$5,315,705</u>	<u>\$2,045,648</u>	<u>\$14,666,472</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 Position
December 31, 2012

Amounts reported for governmental activities in the statement of net assets (page 12) are different because:

Total fund balances—governmental funds (page 14)		\$ 13,030,232
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$92,292,560 and the accumulated depreciation is \$30,219,184.		62,073,376
To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due.		(35,493)
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	\$ (18,700,000)	
Premium on serial bonds	(1,010,696)	
Installment purchase debt	(419,960)	
Due to other governments	(22,000)	
Compensated absences	(2,554,285)	
Other postemployment benefits	<u>(2,337,684)</u>	(25,044,625)
Internal service fund balance which is due to governmental activities and related charges for services provided.		<u>773,624</u>
Total net position—governmental activities		<u>\$ 50,797,114</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, 2012

	Special Revenue							Total Governmental Funds
	General Fund	Police Fund	Highway Fund Town Outside Village	Fire Protection District Fund	Refuse District Fund	Capital Projects Fund	Other Governmental Funds	
REVENUES								
Real property taxes	\$ 6,165,006	\$ 4,656,488	\$ 2,936,884	\$ 3,755,551	\$ 2,216,521	\$ -	\$ 1,058,965	\$ 20,789,415
Other property tax items	404,106	267,930	192,160	-	-	-	17,369	881,565
Non-property tax items	-	3,173,409	843,564	-	-	-	345,592	4,362,565
Departmental income	210,957	5,995	-	-	21,709	-	42,723	281,384
Intergovernmental charges	49,091	1,034,082	102,815	-	-	-	27,676	1,213,664
Use of money and property	51,458	9,084	5,240	7,796	3,595	-	119,498	196,671
Licenses and permits	74,556	-	-	-	-	-	133,461	208,017
Fines and forfeitures	191,707	25,381	-	-	-	-	-	217,088
Sale of property and compensation for loss	27,826	75,103	21,852	-	-	-	-	124,781
Miscellaneous	57,972	18,443	1,272	-	-	-	298,554	376,241
State aid	893,656	6,440	87,695	-	-	270,001	121,895	1,379,687
Federal aid	-	18,181	-	-	-	-	-	18,181
Total revenues	<u>8,126,335</u>	<u>9,290,536</u>	<u>4,191,482</u>	<u>3,763,347</u>	<u>2,241,825</u>	<u>270,001</u>	<u>2,165,733</u>	<u>30,049,259</u>
EXPENDITURES								
Current:								
General government support	2,865,563	1,022	517	918	946	-	230	2,869,196
Public safety	116,928	5,761,855	-	3,742,785	-	-	451,282	10,072,850
Health	86,294	-	-	-	-	-	3,324	89,618
Transportation	129,594	-	2,296,148	-	-	-	279,336	2,705,078
Culture and recreation	1,894,360	-	-	-	-	-	157,195	2,051,555
Home and community services	459,191	-	-	-	2,264,657	-	402,709	3,126,557
Employee benefits	1,084,862	2,222,672	723,635	-	-	-	187,462	4,218,631
Capital outlay	-	-	-	-	-	4,426,397	-	4,426,397
Debt service:								
Principal	555,000	-	249,949	-	-	-	536,000	1,340,949
Interest	159,373	-	27,496	-	-	-	124,017	310,886
Total expenditures	<u>7,351,165</u>	<u>7,985,549</u>	<u>3,297,745</u>	<u>3,743,703</u>	<u>2,265,603</u>	<u>4,426,397</u>	<u>2,141,555</u>	<u>31,211,717</u>
Excess (deficiency) of revenues over expenditures	<u>775,170</u>	<u>1,304,987</u>	<u>893,737</u>	<u>19,644</u>	<u>(23,778)</u>	<u>(4,156,396)</u>	<u>24,178</u>	<u>(1,162,458)</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	131,815	255,000	7,974	-	-	90,000	-	484,789
Transfers out	(761,482)	(1,134,886)	(440,537)	-	-	(19,789)	(169,005)	(2,525,699)
Premium on serial bond issuance	495,384	-	74,742	-	-	-	478,003	1,048,129
Proceeds on serial bond issuance	-	-	-	-	-	18,090,000	-	18,090,000
Proceeds on installment purchase debt issuance	-	-	-	-	-	459,909	-	459,909
Total other financing sources (uses)	<u>(134,283)</u>	<u>(879,886)</u>	<u>(357,821)</u>	<u>-</u>	<u>-</u>	<u>18,620,120</u>	<u>308,998</u>	<u>17,557,128</u>
Net change in fund balances (deficits)	640,887	425,101	535,916	19,644	(23,778)	14,463,724	333,176	16,394,670
Fund balances (deficits)—beginning	<u>1,655,815</u>	<u>2,119,458</u>	<u>530,562</u>	<u>126,837</u>	<u>455,224</u>	<u>(9,924,314)</u>	<u>1,671,980</u>	<u>(3,364,438)</u>
Fund balances—ending	<u>\$ 2,296,702</u>	<u>\$ 2,544,559</u>	<u>\$ 1,066,478</u>	<u>\$ 146,481</u>	<u>\$ 431,446</u>	<u>\$ 4,539,410</u>	<u>\$ 2,005,156</u>	<u>\$ 13,030,232</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, 2012

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances—total governmental funds (page 16) \$ 16,394,670

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	\$ 5,125,184	
Depreciation expense	<u>(1,607,754)</u>	3,517,430

The governmental funds report the repayment of long-term debt as an expenditure and the issuance long-term debt as a as an other financing source (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 long-term debt and related items is as follows:

Net activity of serial bonds	\$ (16,800,000)	
Net activity of premiums on serial bonds	(1,010,696)	
Net activity of installment purchase debt	(419,960)	
Net activity of amount due to other governments	11,000	
Net change in accrued interest on bonds	<u>(28,863)</u>	(18,248,519)

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	(344,823)	
Net change in compensated absences	<u>(64,001)</u>	(408,824)

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. 158,897

Change in net assets of governmental activities \$ 1,413,654

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—General Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$6,165,006	\$6,165,006	\$6,165,006	\$ -
Other property tax items	405,000	405,000	404,106	(894)
Departmental income	193,000	193,000	210,957	17,957
Intergovernmental charges	46,761	46,761	49,091	2,330
Use of money and property	45,000	45,000	51,458	6,458
Licenses and permits	68,500	68,500	74,556	6,056
Fines and forfeitures	222,000	222,000	191,707	(30,293)
Sale of property and compensation for loss	3,000	3,000	27,826	24,826
Miscellaneous	75,000	86,360	57,972	(28,388)
State aid	779,412	785,607	893,656	108,049
Total revenues	<u>8,002,679</u>	<u>8,020,234</u>	<u>8,126,335</u>	<u>106,101</u>
EXPENDITURES				
Current:				
General government support	3,146,635	3,180,810	2,865,563	315,247
Public safety	123,267	123,267	116,928	6,339
Health	88,818	88,818	86,294	2,524
Transportation	134,920	135,295	129,594	5,701
Culture and recreation	1,899,841	2,001,696	1,894,360	107,336
Home and community services	507,495	541,495	459,191	82,304
Employee benefits	1,160,455	1,167,218	1,084,862	82,356
Debt service:				
Principal	210,000	555,000	555,000	-
Interest	134,783	159,373	159,373	-
Total expenditures	<u>7,406,214</u>	<u>7,952,972</u>	<u>7,351,165</u>	<u>601,807</u>
Excess of revenues over expenditures	<u>596,465</u>	<u>67,262</u>	<u>775,170</u>	<u>707,908</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	120,000	120,000	131,815	11,815
Transfers out	(1,148,500)	(803,500)	(761,482)	42,018
Premium on debt issuance	-	-	495,384	495,384
Total other financing sources (uses)	<u>(1,028,500)</u>	<u>(683,500)</u>	<u>(134,283)</u>	<u>549,217</u>
Net change in fund balances*	(432,035)	(616,238)	640,887	1,257,125
Fund balances - beginning	1,655,815	1,655,815	1,655,815	-
Fund balances - ending	<u>\$1,223,780</u>	<u>\$1,039,577</u>	<u>\$2,296,702</u>	<u>\$ 1,257,125</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance and a reappropriation of prior year's encumbrances.

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, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$4,656,488	\$4,656,488	\$4,656,488	\$ -
Other property tax items	250,000	250,000	267,930	17,930
Non-property tax items	2,870,000	2,870,000	3,173,409	303,409
Departmental income	5,500	5,500	5,995	495
Intergovernmental charges	943,000	943,000	1,034,082	91,082
Use of money and property	12,000	12,000	9,084	(2,916)
Fines and forfeitures	10,000	10,000	25,381	15,381
Sale of property and compensation for loss	10,000	60,000	75,103	15,103
Miscellaneous	1,000	5,960	18,443	12,483
State aid	-	-	6,440	6,440
Federal aid	-	17,000	18,181	1,181
Total revenues	<u>8,757,988</u>	<u>8,829,948</u>	<u>9,290,536</u>	<u>460,588</u>
EXPENDITURES				
Current:				
General government support	26,022	26,022	1,022	25,000
Public safety	5,871,763	5,928,723	5,761,855	166,868
Employee benefits	2,175,203	2,253,881	2,222,672	31,209
Total expenditures	<u>8,072,988</u>	<u>8,208,626</u>	<u>7,985,549</u>	<u>223,077</u>
Excess of revenues over expenditures	<u>685,000</u>	<u>621,322</u>	<u>1,304,987</u>	<u>683,665</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	255,000	255,000	255,000	-
Transfers out	<u>(1,220,000)</u>	<u>(1,220,000)</u>	<u>(1,134,886)</u>	<u>85,114</u>
Total other financing sources (uses)	<u>(965,000)</u>	<u>(965,000)</u>	<u>(879,886)</u>	<u>85,114</u>
Net change in fund balances*	(280,000)	(343,678)	425,101	768,779
Fund balances - beginning	<u>2,119,458</u>	<u>2,119,458</u>	<u>2,119,458</u>	<u>-</u>
Fund balances - ending	<u>\$1,839,458</u>	<u>\$1,775,780</u>	<u>\$2,544,559</u>	<u>\$ 768,779</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

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, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$2,936,884	\$2,936,884	\$2,936,884	\$ -
Other property tax items	176,000	176,000	192,160	16,160
Non-property tax items	763,000	763,000	843,564	80,564
Intergovernmental charges	95,000	95,000	102,815	7,815
Use of money and property	5,000	5,000	5,240	240
Sale of property and compensation for loss	8,000	8,000	21,852	13,852
Miscellaneous	100	100	1,272	1,172
State aid	60,000	60,000	87,695	27,695
Total revenues	<u>4,043,984</u>	<u>4,043,984</u>	<u>4,191,482</u>	<u>147,498</u>
EXPENDITURES				
Current:				
General government support	517	517	517	-
Transportation	2,684,918	2,643,746	2,296,148	347,598
Employee benefits	746,133	746,133	723,635	22,498
Debt service:				
Principal	15,000	249,950	249,949	1
Interest	22,739	27,496	27,496	-
Total expenditures	<u>3,469,307</u>	<u>3,667,842</u>	<u>3,297,745</u>	<u>370,097</u>
Excess of revenues over expenditures	<u>574,677</u>	<u>376,142</u>	<u>893,737</u>	<u>517,595</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	7,974	7,974
Transfers out	(671,000)	(476,000)	(440,537)	35,463
Premium on serial bond issuance	-	-	74,742	74,742
Total other financing sources (uses)	<u>(671,000)</u>	<u>(476,000)</u>	<u>(357,821)</u>	<u>118,179</u>
Net change in fund balances*	(96,323)	(99,858)	535,916	635,774
Fund balances - beginning	<u>530,562</u>	<u>530,562</u>	<u>530,562</u>	<u>-</u>
Fund balances - ending	<u>\$ 434,239</u>	<u>\$ 430,704</u>	<u>\$1,066,478</u>	<u>\$ 635,774</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance and a reappropriation of prior year's encumbrances.

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 Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$3,755,551	\$3,755,551	\$3,755,551	\$ -
Use of money and property	<u>8,000</u>	<u>8,000</u>	<u>7,796</u>	<u>(204)</u>
Total revenues	<u>3,763,551</u>	<u>3,763,551</u>	<u>3,763,347</u>	<u>(204)</u>
EXPENDITURES				
Current:				
General government support	919	919	918	1
Public safety	<u>3,762,632</u>	<u>3,762,632</u>	<u>3,742,785</u>	<u>19,847</u>
Total expenditures	<u>3,763,551</u>	<u>3,763,551</u>	<u>3,743,703</u>	<u>19,848</u>
Net change in fund balance	-	-	19,644	19,644
Fund balances - beginning	<u>126,837</u>	<u>126,837</u>	<u>126,837</u>	<u>-</u>
Fund balances - ending	<u>\$ 126,837</u>	<u>\$ 126,837</u>	<u>\$ 146,481</u>	<u>\$ 19,644</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—Refuse District Fund
Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget</u>
REVENUES				
Real property taxes	\$2,216,521	\$2,216,521	\$2,216,521	\$ -
Departmental income	20,000	20,000	21,709	1,709
Use of money and property	<u>5,000</u>	<u>5,000</u>	<u>3,595</u>	<u>(1,405)</u>
Total revenues	<u>2,241,521</u>	<u>2,241,521</u>	<u>2,241,825</u>	<u>304</u>
EXPENDITURES				
Current:				
General government support	946	946	946	-
Home and community services	<u>2,350,575</u>	<u>2,350,575</u>	<u>2,264,657</u>	<u>85,918</u>
Total expenditures	<u>2,351,521</u>	<u>2,351,521</u>	<u>2,265,603</u>	<u>85,918</u>
Net change in fund balance*	(110,000)	(110,000)	(23,778)	86,222
Fund balances - beginning	<u>455,224</u>	<u>455,224</u>	<u>455,224</u>	<u>-</u>
Fund balances - ending	<u>\$ 345,224</u>	<u>\$ 345,224</u>	<u>\$ 431,446</u>	<u>\$ 86,222</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

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

TOWN OF LANCASTER, NEW YORK
Statement of Net Position
Proprietary Fund
December 31, 2012

	Governmental Activities— <u>Internal Service Fund</u>
	<u>Self Insurance Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 949,303
Total current assets	<u>949,303</u>
LIABILITIES	
Current liabilities:	
Accounts payable	20,805
Accrued liabilities	<u>154,874</u>
Total current liabilities	<u>175,679</u>
NET POSITION	
Restricted for claims	<u>773,624</u>
Total net position	<u>\$ 773,624</u>

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 Position
Proprietary Fund
Year Ended December 31, 2012

	Governmental Activities— Internal Service Fund
	Self Insurance Fund
Operating revenues:	
Charges for services	\$2,040,910
Total operating revenues	2,040,910
Operating expenses:	
Administrative fees	94,572
Claims expenses	1,572,777
Excess insurance	251,581
Total operating expenses	1,918,930
Operating gain	121,980
Nonoperating revenues:	
Health reimbursements	35,152
Interest income	1,765
Total nonoperating revenues	36,917
Change in net assets	158,897
Total net position—beginning	614,727
Total net position—ending	\$ 773,624

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, 2012

	Governmental Activities— Internal Service Fund
	Self Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from participating funds	\$2,040,910
Payments for claims	(1,495,062)
Payments for administration and insurance	(346,153)
Net cash provided by operating activities	199,695
 CASH FLOWS FROM INVESTING ACTIVITIES	
Health reimbursements	35,152
Interest earnings	1,765
Net cash provided by investing activities	36,917
 Net increase in cash and cash equivalents	236,612
 Cash and cash equivalents—beginning	712,691
Cash and cash equivalents—ending	\$ 949,303
 Reconciliation of operating loss to net cash provided in operating activities:	
Operating gain	\$ 121,980
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in accounts payable	6,791
Increase in accrued liabilities	70,924
Net cash provided by operating activities	\$ 199,695

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, 2012

ASSETS

Cash	\$ 221,856
Due from other funds	1,267
Service award program assets	<u>2,997,021</u>
Total assets	<u>\$ 3,220,144</u>

LIABILITIES

Agency liabilities	\$ 223,123
Service awards	<u>2,997,021</u>
Total liabilities	<u>\$ 3,220,144</u>

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

TOWN OF LANCASTER, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2012

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.

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the nonfiduciary activities of the Town. All fiduciary activities are reported only in the fund financial 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 Town reports no business-type activities or component units.

Financial 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.

The following basic services are provided: police protection, fire protection through local volunteer companies, highway, sanitation, recreation, sewer service, street lighting, water transmission service and general administration.

Independently elected officials of the Town include:

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

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.

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.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds, an internal service fund and a fiduciary fund, even though the latter two funds are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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.
- *Refuse District Fund*—This fund is used to record all revenues and expenditures related to garbage pick-up and recycling 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 Serve Fund is used to account for the activity of the Town’s self-insured health plan.

Agency Fund—The Agency Fund is used to account for employee payroll tax withholdings and for other money (and/or property) received and held in the capacity of trustee, custodian or agent.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, franchise 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during

the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Budgetary Information

Budgetary Basis of Accounting—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. A form of encumbrance accounting is employed as an extension of budgetary control in all governmental funds, under which purchase orders, 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 completion of the project.

The Town considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. There are no encumbrances outstanding that are considered to be significant at December 31, 2012.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

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 debt proceeds and other funds that are legally restricted as to their use are reported as restricted cash and cash equivalents

Investments—The Town had no investments at December 31, 2012, however, when the Town does have investments it is Town policy to record them at quoted market value.

Prepays— Certain retirement payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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

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

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town does not have any items that qualify for reporting in this category.

Net Position Flow Assumption—Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions—Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town’s highest level of decision-making authority. The Town Board is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as committed. The Town Board has authorized the Supervisor to assign fund balance. The Town Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as *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 or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary Fund Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for healthcare costs. Operating expenses for the internal service fund include cost of health claims from providers, excess insurance coverage and administrative costs of third party provider of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Taxes—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.

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

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 8.

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.

Adoption of New Accounting Pronouncement— During the year ended December 31, 2012, the Town adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Town elected to early implement GASB Statement No. 65. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statements Nos. 63 and 65 did not have a material impact on the Town’s financial position or results from operations.

Additionally, during the year ended December 31, 2012, the Town 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*, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. GASB Statements Nos. 57, 60, 62 and 64 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. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; GASB Statement No. 67, *Financial Reporting for Pension Plans—an*

amendment of GASB Statement No. 25, GASB Statement No. 69, Government Combinations and Disposals of Government Operations, and GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees effective for the year ending December 31, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for the year ending December 31, 2015. The Town is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 61, 66, 67, 68, 69 and 70 will have on its financial position and results of operations.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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. 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, 2012, is as follows:

Governmental Funds	\$11,614,952
Agency Fund	221,856
Proprietary Fund	<u>949,303</u>
Total	<u>\$12,786,111</u>

Cash and cash equivalents at year-end consisted of:

Petty Cash (uncollateralized)	\$ 1,900
Deposits	<u>12,784,211</u>
Total	<u>\$12,786,111</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)	\$ 459,909	\$ 459,909
Uninsured:		
Collateral held by bank's agent in Town's name	<u>12,438,777</u>	<u>12,324,302</u>
Total	<u>\$ 12,898,686</u>	<u>\$ 12,784,211</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, 2012, 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 Town manages exposures by limiting investments to low risk type investments governed by New York State Statutes. At December 31, 2012, the Town had no investments.

Restricted cash and cash equivalents— The Town reports restricted cash, totaling \$6,198,113, within the General, Highway-Town Outside Village, Capital Projects, Highway-Townwide and Consolidated Water District Funds. These funds are set aside for future payments of debt service in all of the previously

mentioned funds, except for the Capital Projects Fund, where the funds are restricted to use for capital construction purposes.

4. RECEIVABLES

Revenues accrued by the Town at December 31, 2012 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 \$174,684 reported in the General Town Outside Village Fund total receivables of \$182,359.

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 2012 are presented below:

General Fund—Townwide:			
Due from State	\$	19,821	
Erie County		10,445	
Miscellaneous		<u>4,905</u>	\$ 35,171
Police Fund:			
Due from Federal		7,711	
Erie County—Sales tax		1,194,431	
Village of Lancaster		216,789	
Lancaster CSD—SRO officer		<u>33,089</u>	1,452,020
Highway Fund—Town Outside Village:			
Due from State		22,379	
Erie County—Sales tax		<u>317,507</u>	339,886
Special Revenue Fund:			
Due from Federal			<u>6,386</u>
Total	\$		<u><u>1,833,463</u></u>

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance <u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2012</u>
Capital assets, not being depreciated:				
Land	\$ 1,320,831	\$ -	\$ -	\$ 1,320,831
Construction in progress	<u>752,094</u>	<u>4,072,029</u>	<u>898,229</u>	<u>3,925,894</u>
Total capital assets, not being depreciated	<u>2,072,925</u>	<u>4,072,029</u>	<u>898,229</u>	<u>5,246,725</u>
Capital assets, being depreciated:				
Land improvements	1,664,694	-	-	1,664,694
Infrastructure	65,691,712	1,487,376	-	67,179,088
Buildings and improvements	14,111,388	118,185	-	14,229,573
Machinery and equipment	<u>3,626,657</u>	<u>345,823</u>	<u>-</u>	<u>3,972,480</u>
Total capital assets, being depreciated	<u>85,094,451</u>	<u>1,951,384</u>	<u>-</u>	<u>87,045,835</u>
Less accumulated depreciation for:				
Land improvements	(129,268)	(66,588)	-	(195,856)
Infrastructure	(22,647,088)	(1,114,223)	-	(23,761,311)
Buildings and improvements	(3,661,003)	(231,872)	-	(3,892,875)
Machinery and equipment	<u>(2,174,071)</u>	<u>(195,071)</u>	<u>-</u>	<u>(2,369,142)</u>
Total accumulated depreciation	<u>(28,611,430)</u>	<u>(1,607,754)</u>	<u>-</u>	<u>(30,219,184)</u>
Total capital assets, being depreciated, net	<u>56,483,021</u>	<u>343,630</u>	<u>-</u>	<u>56,826,651</u>
Governmental activities capital assets, net	<u>\$ 58,555,946</u>	<u>\$ 4,415,659</u>	<u>\$ 898,229</u>	<u>\$ 62,073,376</u>

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

Governmental activities:	
General government support	\$ 131,941
Public safety	80,836
Transportation	932,014
Culture and recreation	146,222
Home and community service	<u>316,741</u>
Total governmental activities depreciation expense	<u>\$ 1,607,754</u>

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at December 31, 2012 were as follows:

	General Fund	Police Fund	Highway— Town Outside Village	General Town Outside Village	Total
Salary and employee benefits	<u>\$ 59,815</u>	<u>\$ 89,370</u>	<u>\$ 69,355</u>	<u>\$ 6,305</u>	<u>\$ 224,845</u>

7. 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 membership, and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement Systems 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:

	ERS	PFRS
2012	\$ 1,001,466	\$ 1,413,217
2011	927,098	1,044,732
2010	619,689	994,696

8. 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, 2012.

	2012	2011
Annual required contribution	\$ 844,061	\$ 809,019
Interest on net OPEB obligation	79,714	65,774
Adjustment to annual required contribution	<u>(95,677)</u>	<u>(76,767)</u>
Annual OPEB costs (expense)	828,098	798,026
Contributions made	<u>(483,275)</u>	<u>(449,534)</u>
Increase in net OPEB obligation	344,823	348,492
Net OPEB obligation—beginning of year	<u>1,992,861</u>	<u>1,644,369</u>
Net OPEB obligation—end of year	<u>\$ 2,337,684</u>	<u>\$ 1,992,861</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 \$12,506,601.

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, 2012, 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	\$ -	\$ 12,506,601	\$ 12,506,601	0.0%	\$ 907,702	1377.8%
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
2012	\$ 844,061	\$ 483,275	57.3%
2011	809,019	449,534	55.6%

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, 2012 was twenty-five years.

9. 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 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 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, 2012			\$ 3,784,102
Less: Assets available for benefits	<u>% of total</u>		
<i>Cash and short-term investments:</i>			
Cash & money market	1.6%	\$ 47,598	
<i>Other assets:</i>			
Annuities and insurance contracts	98.4%	<u>2,949,423</u>	
Total net assets available for benefits			<u>2,997,021</u>
Total unfunded benefits			<u>\$ 787,081</u>

Receipts and Disbursements

Plan Assets, January 1, 2012			2,743,728
Changes during the year:			
Add:	Plan Contributions	321,956	
	Investment income earned	82,725	
	Insurance Policies Proceeds	66,635	
	Whole Life Insurance Policies Premiums	(21,685)	
	Term Life Insurance Policies Premiums	(9,371)	
	Change in Cash Value of Life Insurance	1,733	
	Administrative Fees	(4,900)	
Less:	Plan Benefit Withdrawals	<u>(183,800)</u>	
	Net Change		<u>253,293</u>
Plan Net Assets, December 31, 2012			<u>\$ 2,997,021</u>

Contributions and Administrative Fees

The Town contributed \$321,956 to the Program during the year ended December 31, 2012. 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, 2012 is \$2,997,021.

10. RISK MANAGEMENT

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, 2012, 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 \$251,581 during the year ended December 31, 2012. 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.

11. 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 which expired December 31, 2011. Management anticipates any retroactive wage settlement would not be material to the financial statements.

12. 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 seven years after the original issue date. For the year ended December 31, 2012 the Town redeemed \$12,295,000 in BANS through the issuance of long-term debt.

Description	Interest Rate	Balance 1/1/2012	Issued	Redeemed	Balance 12/31/2012
Capital Projects Fund:					
General Fund--Townwide:					
Town Hall Improvements	1.50%	\$ 2,020,000	\$ -	\$ 2,020,000	\$ -
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%	530,000	-	530,000	-
Town-wide Water Improvements	1.50%	5,770,000	-	5,770,000	-
Highway Fund--Town Outside Village:					
Siebert Rd. Improvements	1.50%	130,000	-	130,000	-
Steinfeldt Rd. Improvements	1.50%	75,000	-	75,000	-
Glendale/Parkdale Rd. Recon	1.50%	650,000	-	650,000	-
Highway Truck Dump Bodies	1.50%	25,000	-	25,000	-
Highway Equipment	1.50%	585,000	-	585,000	-
Grand Total		<u>\$ 12,385,000</u>	<u>\$ -</u>	<u>\$ 12,385,000</u>	<u>\$ -</u>

13. 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, 2012 is presented on the following page.

Description	Year of of Issue/ Maturity	Interest Rate	Principal Outstanding 01/01/12	Issued	Redeemed	Principal Outstanding 12/31/12
General Fund - Townwide:						
Westwood Park	1994/2014	5.6%-5.9%	\$ 375,000	\$ -	\$ 125,000	\$ 250,000
Walden Ave. Building/Land Acquisition	2005/2024	3.5%-4.0%	1,280,000	-	85,000	1,195,000
Town Hall Addition	2012/2026	2.0%-5.0%	-	1,920,000	150,000	1,770,000
Police/Court Building	2012/2026	2.0%-5.0%	-	6,500,000	175,000	6,325,000
OEM Building HVAC System	2012/2015	2.0%-3.0%	-	130,000	20,000	110,000
Total General Fund- Townwide			<u>1,655,000</u>	<u>8,550,000</u>	<u>555,000</u>	<u>9,650,000</u>
Highway Fund- Townwide:						
Bridge Reconstruction (1/1/04)	2005/2015	3.5%-3.8%	85,000	-	20,000	65,000
Culverts/Bridges	2012/2026	2.0%-5.0%	-	1,300,000	-	1,300,000
Total Highway Fund- Townwide			<u>85,000</u>	<u>1,300,000</u>	<u>20,000</u>	<u>1,365,000</u>
Highway Fund- Town Outside Villages						
Highway Equipment	2005/2013	3.5%-3.8%	30,000	-	15,000	15,000
Highway Equipment	2012/2023	2.0%-5.0%	-	585,000	65,000	520,000
Siebert Road Improvements	2012/2013	2.0%	-	40,000	20,000	20,000
Steinfeldt Road Improvements	2012/2014	2.0%-3.0%	-	75,000	30,000	45,000
Glendale/Parkdale Road Reconstruction	2012/2023	2.0%-5.0%	-	565,000	70,000	495,000
Highway Truck Dump Bodies	2012/2015	2.0%-3.0%	-	25,000	10,000	15,000
Total Highway Fund- TOV			<u>30,000</u>	<u>1,290,000</u>	<u>210,000</u>	<u>1,110,000</u>
Special Districts- Consolidated Water District						
William St. Pump Station Series A	2005/2012	3.5%	40,000	-	40,000	-
William St. Pump Station Series B	2005/2012	3.5%	90,000	-	90,000	-
Transit Rd Water Improvements	2012/2026	2.0%-5.0%	-	530,000	45,000	485,000
Townwide Water Improvements	2012/2026	2.0%-5.0%	-	5,520,000	330,000	5,190,000
Schwartz Road Waterline Improvements	2012/2026	2.0%-5.0%	-	900,000	-	900,000
Total Consolidated Water District			<u>130,000</u>	<u>6,950,000</u>	<u>505,000</u>	<u>6,575,000</u>
Grand total			<u>\$1,900,000</u>	<u>\$18,090,000</u>	<u>\$1,290,000</u>	<u>\$18,700,000</u>

Amortization of Bond Premium—On June 15, 2012 the Town issued serial bonds totaling \$18,090,000 and received a bond premium of \$1,048,129. In the government-wide financial statements the premium is being amortized on a straight-line basis over the life of the bond, which matures on July 15, 2026, using a half year convention in year of issuance.

Installment Purchase Debt—On July 31, 2012 the Town entered into an installment purchase contract for the acquisition of four vehicles and a gradall excavator. The value of the vehicles and excavator approximated \$459,909, which was also the amount of the original debt of \$459,909. The installment purchase debt carries an interest rate of 1.6129% and is payable in quarterly installments, with the final payment due on July 1, 2017. The requirements of the installment purchase agreement are summarized on the next page.

<u>Year ended December 31,</u>	<u>Total</u>
2013	\$ 113,211
2014	113,210
2015	100,345
2016	61,748
2017	<u>46,311</u>
Total minimum lease payments	434,825
Less: amount representing interest	<u>(14,865)</u>
Present value of minimum lease payments	<u>\$ 419,960</u>

Due to Other Governments—Represents a long-term liability, due to the Village of Lancaster, New York to reimburse the Village for the Central Avenue bridge reconstruction. The amount due carries an interest rate of 3.0%, with annual installments of \$11,000 plus interest. The balance at December 31, 2012 is \$22,000.

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, 2012, for governmental activities is \$2,554,285.

OPEB Obligation—As explained in Note 8, 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 \$2,337,684 as of December 31, 2012.

The following is a summary of changes in the Town’s long-term debt for the year ended December 31, 2012:

	<u>Balance</u> <u>1/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Current</u> <u>Portion</u>
Serial bonds	\$ 1,900,000	\$ 18,090,000	\$ 1,290,000	\$ 18,700,000	\$ 1,355,000
Premium on serial bonds	-	1,048,129	37,433	1,010,696	74,866
Net serial bonds payable	1,900,000	19,138,129	1,327,433	19,710,696	1,429,866
Installment purchase debt	-	459,909	39,949	419,960	107,083
Due to other governments	33,000	-	11,000	22,000	11,000
Compensated absences	2,490,284	181,518	117,517	2,554,285	127,714
Other post employee benefits	1,992,861	1,172,921	828,098	2,337,684	-
Total	<u>\$ 6,416,145</u>	<u>\$ 20,952,477</u>	<u>\$ 2,323,997</u>	<u>\$ 25,044,625</u>	<u>\$ 1,675,663</u>

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

	Serial Bonds	Premium on Serial Bonds	Installment Purchase Debt	Due to Other Governments	Compensated Absences	Other Post Employment Benefits	Total
2013	\$ 1,355,000	\$ 74,866	\$ 107,083	\$ 11,000	\$ 127,714	\$ -	\$ 1,675,663
2014	1,385,000	74,866	108,820	11,000	-	-	1,579,686
2015	1,270,000	74,866	97,720	-	-	-	1,442,586
2016	1,245,000	74,866	60,397	-	-	-	1,380,263
2017	1,275,000	74,866	45,940	-	-	-	1,395,806
2018-2022	6,805,000	374,331	-	-	-	-	7,179,331
2023-thereafter	5,365,000	262,035	-	-	2,426,571	2,337,684	10,391,290
	<u>\$ 18,700,000</u>	<u>\$ 1,010,696</u>	<u>\$ 419,960</u>	<u>\$ 22,000</u>	<u>\$ 2,554,285</u>	<u>\$ 2,337,684</u>	<u>\$ 25,044,625</u>

Interest requirements on serial bonds payable are as follows:

Year	Interest
2013	\$ 661,450
2014	627,288
2015	584,863
2016	546,294
2017	508,194
2018-2022	1,649,469
2023-2026	393,525
	<u>\$ 4,971,083</u>

14. NET POSITION AND FUND BALANCE

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

- ◆ **Net investment in capital assets**—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 and remaining unspent debt proceeds 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		\$ 62,073,376
Less outstanding debt issued for capital acquisition:		
Serial bonds	\$ (18,700,000)	
Installment purchase debt	(419,960)	
Due to other governments	<u>(22,000)</u>	\$ (19,141,960)
Add unspent proceeds of debt issued		<u>4,539,410</u> (14,602,550)
Net assets invested in capital assets, net of related debt		<u>\$ 47,470,826</u>

- ◆ ***Restricted net position***—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 net position for capital purposes and debt service of \$4,539,410 and \$1,202,418, respectively.
- ◆ ***Unrestricted net position***—This category represents net position of the Town not restricted for any project or other purpose. At December 31, 2012, the Town has a deficit net position as the funding for certain long-term liabilities (e.g. compensated absences and other post-employment benefits) are not funded until due.

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 balances maintained by the Town at December 31, 2012 include:

- ◆ ***Prepays***—Represents amounts prepaid to the New York State and Local Retirement System.

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, 2012, and include:

- ◆ ***Restricted for Capita Projects***—Represents resources legally restricted for capital construction or acquisition of capital assets.
- ◆ ***Restricted for Debt Service***—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, 2012, the following balances were considered to be assigned:

- ◆ ***Assigned to Subsequent Year's 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 assigned \$71,879 of fund balance for encumbrances at December 31, 2012.
- ◆ ***Assigned to Specific Use***—Represents remaining fund balance of the special revenue funds assigned to that funds specific purpose.

If the Town must use funds for emergency expenditures the Town Board shall authorize the Supervisor to expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the Town will use unassigned fund balance.

15. 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, 2012 consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General Fund	\$ 4,527	\$ 938
Police Fund	938	-
Highway Fund - Town Outside Village	338,026	230
Capital Projects Fund	-	342,705
Other Governmental Funds	152	1,037
Agency Fund	<u>1,267</u>	<u>-</u>
Total	<u>\$ 344,910</u>	<u>\$ 344,910</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 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
General Fund	\$ 131,815	\$ 761,482
Police Fund	255,000	1,134,886
Highway Fund—Town Outside Village	7,974	440,537
Capital Projects Fund	90,000	19,789
Other governmental funds	<u>-</u>	<u>169,005</u>
Total governmental funds	484,789	2,525,699
Proprietary Fund	<u>2,040,910</u>	<u>-</u>
Total	<u>\$ 2,525,699</u>	<u>\$ 2,525,699</u>

16. CONTINGENCIES

Assessments—The Town is a defendant in various litigation under Article 7 of the Real Property Tax Law of the State of New York to review tax assessments. While the Town vigorously defends assessments, the likelihood of success is on a case by case basis, and is dependent upon 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 June 4, 2013, 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, 2012

	Special Revenue					Total
	General Town Outside Village	Highway Townwide	Lighting District	Consolidated Water District	Miscellaneous Special Revenue	Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 122,630	\$ 119,323	\$ 241,382	\$ 74,374	\$ 745,147	\$1,302,856
Restricted cash and cash equivalents	-	75,946	-	455,897	-	531,843
Receivables	182,359	-	-	-	6,800	189,159
Due from other funds	-	-	-	152	-	152
Due from other governments	-	-	-	-	6,386	6,386
Prepays	15,252	-	-	-	-	15,252
Total assets	<u>\$ 320,241</u>	<u>\$ 195,269</u>	<u>\$ 241,382</u>	<u>\$ 530,423</u>	<u>\$ 758,333</u>	<u>\$2,045,648</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 9,895	\$ -	\$ 23,255	\$ -	\$ -	\$ 33,150
Accrued liabilities	6,305	-	-	-	-	6,305
Due to other funds	-	-	-	-	1,037	1,037
Total liabilities	<u>16,200</u>	<u>-</u>	<u>23,255</u>	<u>-</u>	<u>1,037</u>	<u>40,492</u>
Fund balances:						
Nonspendable	15,252	-	-	-	-	15,252
Restricted:						
Debt service	-	75,946	-	455,897	-	531,843
Assigned:						
Subsequent year's expenditures	75,000	35,000	35,000	-	68,985	213,985
Specific use	213,789	84,323	183,127	74,526	688,311	1,244,076
Total fund balances	<u>304,041</u>	<u>195,269</u>	<u>218,127</u>	<u>530,423</u>	<u>757,296</u>	<u>2,005,156</u>
Total liabilities and fund balances	<u>\$ 320,241</u>	<u>\$ 195,269</u>	<u>\$ 241,382</u>	<u>\$ 530,423</u>	<u>\$ 758,333</u>	<u>\$2,045,648</u>

TOWN OF LANCASTER, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended December 31, 2012

	Special Revenue					Total Nonmajor Governmental Funds
	General	Highway Townwide	Lighting District	Consolidated		
	Town Outside Village			Water District	Special Revenue	
REVENUES						
Real property taxes	\$ 233,445	\$ 56,789	\$ 244,092	\$ 524,639	\$ -	\$1,058,965
Other property tax items	15,214	2,155	-	-	-	17,369
Non-property tax items	345,592	-	-	-	-	345,592
Departmental income	42,723	-	-	-	-	42,723
Intergovernmental charges	23,000	-	-	4,676	-	27,676
Use of money and property	111,949	1,058	820	3,741	1,930	119,498
Licenses and permits	133,461	-	-	-	-	133,461
Miscellaneous	3,675	-	-	-	294,879	298,554
State aid	121,895	-	-	-	-	121,895
Total revenues	<u>1,030,954</u>	<u>60,002</u>	<u>244,912</u>	<u>533,056</u>	<u>296,809</u>	<u>2,165,733</u>
EXPENDITURES						
Current:						
General government support	-	13	92	125	-	230
Public safety	421,650	-	-	-	29,632	451,282
Health	3,324	-	-	-	-	3,324
Transportation	-	28,348	250,988	-	-	279,336
Culture and recreation	-	-	-	-	157,195	157,195
Home and community services	370,866	-	-	14,897	16,946	402,709
Employee benefits	187,129	333	-	-	-	187,462
Debt service:						
Principal	-	31,000	-	505,000	-	536,000
Interest	-	7,595	-	116,422	-	124,017
Total expenditures	<u>982,969</u>	<u>67,289</u>	<u>251,080</u>	<u>636,444</u>	<u>203,773</u>	<u>2,141,555</u>
Excess (deficiency) of revenues over expenditures	<u>47,985</u>	<u>(7,287)</u>	<u>(6,168)</u>	<u>(103,388)</u>	<u>93,036</u>	<u>24,178</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(49,005)	-	-	-	(120,000)	(169,005)
Premium on serial bond issuance	-	75,322	-	402,681	-	478,003
Total other financing sources and uses	<u>(49,005)</u>	<u>75,322</u>	<u>-</u>	<u>402,681</u>	<u>(120,000)</u>	<u>308,998</u>
Net change in fund balances	(1,020)	68,035	(6,168)	299,293	(26,964)	333,176
Fund balances - beginning	<u>305,061</u>	<u>127,234</u>	<u>224,295</u>	<u>231,130</u>	<u>784,260</u>	<u>1,671,980</u>
Fund balances - ending	<u>\$ 304,041</u>	<u>\$ 195,269</u>	<u>\$ 218,127</u>	<u>\$ 530,423</u>	<u>\$ 757,296</u>	<u>\$2,005,156</u>

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, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUE				
Real property taxes	\$ 233,445	\$ 233,445	\$ 233,445	\$ -
Real property tax items	11,100	11,100	15,214	4,114
Non-property tax items	320,000	320,000	345,592	25,592
Departmental income	29,000	29,000	42,723	13,723
Intergovernmental charges	23,000	23,000	23,000	-
Use of money and property	51,000	51,000	111,949	60,949
Licenses and permits	142,000	142,000	133,461	(8,539)
Miscellaneous	200	200	3,675	3,475
State aid	120,000	120,000	121,895	1,895
Total revenues	<u>929,745</u>	<u>929,745</u>	<u>1,030,954</u>	<u>101,209</u>
EXPENDITURES				
Current:				
Public safety	443,668	436,783	421,650	15,133
Health	3,300	3,325	3,324	1
Home and community services	314,733	374,148	370,866	3,282
Employee benefits	168,044	192,449	187,129	5,320
Total expenditures	<u>929,745</u>	<u>1,006,705</u>	<u>982,969</u>	<u>23,736</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(76,960)</u>	<u>47,985</u>	<u>124,945</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(75,000)	(49,010)	(49,005)	5
Total other financing sources (uses)	<u>(75,000)</u>	<u>(49,010)</u>	<u>(49,005)</u>	<u>5</u>
Net change in fund balances*	(75,000)	(125,970)	(1,020)	124,950
Fund balances - beginning	305,061	305,061	305,061	-
Fund balances - ending	<u>\$ 230,061</u>	<u>\$ 179,091</u>	<u>\$ 304,041</u>	<u>\$ 124,950</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Highway Fund—Townwide
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 56,789	\$ 56,789	\$ 56,789	\$ -
Other property tax items	1,850	1,850	2,155	305
Use of money and property	<u>300</u>	<u>300</u>	<u>1,058</u>	<u>758</u>
Total revenues	<u>58,939</u>	<u>58,939</u>	<u>60,002</u>	<u>1,063</u>
EXPENDITURES				
Current:				
General government support	13	13	13	-
Transportation	48,000	48,000	28,348	19,652
Employee benefits	1,148	1,148	333	815
Debt service:				
Principal	31,000	31,000	31,000	-
Interest	<u>3,778</u>	<u>7,595</u>	<u>7,595</u>	<u>-</u>
Total expenditures	<u>83,939</u>	<u>87,756</u>	<u>67,289</u>	<u>20,467</u>
Excess (deficiency) of revenues over expenditures	<u>(25,000)</u>	<u>(28,817)</u>	<u>(7,287)</u>	<u>21,530</u>
OTHER FINANCING SOURCES (USES)				
Premium on serial bond issuance	<u>-</u>	<u>-</u>	<u>75,322</u>	<u>75,322</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>75,322</u>	<u>75,322</u>
Net change in fund balances*	(25,000)	(28,817)	68,035	96,852
Fund balances - beginning	<u>127,234</u>	<u>127,234</u>	<u>127,234</u>	<u>-</u>
Fund balances - ending	<u>\$ 102,234</u>	<u>\$ 98,417</u>	<u>\$ 195,269</u>	<u>\$ 96,852</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Lighting District Fund
Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget</u>
REVENUES				
Real property taxes	\$ 244,092	\$ 244,092	\$ 244,092	\$ -
Use of money and property	<u>1,000</u>	<u>1,000</u>	<u>820</u>	<u>(180)</u>
Total revenues	<u>245,092</u>	<u>245,092</u>	<u>244,912</u>	<u>(180)</u>
EXPENDITURES				
Current:				
General government support	92	92	92	-
Transportation	<u>280,000</u>	<u>280,000</u>	<u>250,988</u>	<u>29,012</u>
Total expenditures	<u>280,092</u>	<u>280,092</u>	<u>251,080</u>	<u>29,012</u>
Net change in fund balances*	(35,000)	(35,000)	(6,168)	28,832
Fund balances - beginning	<u>224,295</u>	<u>224,295</u>	<u>224,295</u>	<u>-</u>
Fund balances - ending	<u>\$ 189,295</u>	<u>\$ 189,295</u>	<u>\$ 218,127</u>	<u>\$ 28,832</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Consolidated Water District Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Real property taxes	\$ 524,639	\$ 524,639	\$ 524,639	\$ -
Intergovernmental charges	5,000	5,000	4,676	(324)
Use of money and property	2,000	2,000	3,741	1,741
Miscellaneous	-	-	-	-
Total revenues	<u>531,639</u>	<u>531,639</u>	<u>533,056</u>	<u>1,417</u>
EXPENDITURES				
Current:				
General government support	126	126	125	1
Home and community services	15,000	20,000	14,897	5,103
Debt service:				
Principal	130,000	505,000	505,000	-
Interest	96,513	116,513	116,422	91
Total expenditures	<u>241,639</u>	<u>641,639</u>	<u>636,444</u>	<u>5,195</u>
Excess (deficiency) of revenues over expenditures	<u>290,000</u>	<u>(110,000)</u>	<u>(103,388)</u>	<u>6,612</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(375,000)	-	-	-
Premium on serial bond issuance	-	-	402,681	402,681
Total other financing sources (uses)	<u>(375,000)</u>	<u>-</u>	<u>402,681</u>	<u>402,681</u>
Net change in fund balances*	(85,000)	(110,000)	299,293	409,293
Fund balances - beginning	<u>231,130</u>	<u>231,130</u>	<u>231,130</u>	<u>-</u>
Fund balances - ending	<u>\$ 146,130</u>	<u>\$ 121,130</u>	<u>\$ 530,423</u>	<u>\$ 409,293</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

TOWN OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance—
Budget and Actual—Miscellaneous Special Revenue Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Use of money and property	\$ 2,565	\$ 2,565	\$ 1,930	\$ (635)
Miscellaneous	95,500	205,500	294,879	89,379
State aid	-	-	-	-
Total revenues	<u>98,065</u>	<u>208,065</u>	<u>296,809</u>	<u>88,744</u>
EXPENDITURES				
Current:				
Public safety	14,800	39,800	29,632	10,168
Culture and recreation	2,000	162,000	157,195	4,805
Home and community services	40,000	40,000	16,946	23,054
Total expenditures	<u>56,800</u>	<u>241,800</u>	<u>203,773</u>	<u>38,027</u>
Excess (deficiency) of revenues over expenditures	<u>41,265</u>	<u>(33,735)</u>	<u>93,036</u>	<u>126,771</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(120,000)</u>	<u>(120,000)</u>	<u>(120,000)</u>	-
Total other financing sources (uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>(120,000)</u>	-
Net change in fund balances*	(78,735)	(153,735)	(26,964)	126,771
Fund balances - beginning	<u>784,260</u>	<u>784,260</u>	<u>784,260</u>	-
Fund balances - ending	<u>\$ 705,525</u>	<u>\$ 630,525</u>	<u>\$ 757,296</u>	<u>\$ 126,771</u>

* The net change in fund balance was included in the budget as an appropriation (i.e. spend-down) of fund balance.

TOWN OF LANCASTER, NEW YORK
Fiduciary Fund
Schedule of Changes in Assets and Liabilities—Agency Fund
Year Ended December 31, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash	\$ 202,172	\$ 12,791,470	\$ 12,771,786	\$ 221,856
Due from other funds	342	11,799,086	11,798,161	1,267
Service award program assets	<u>2,743,728</u>	<u>437,093</u>	<u>183,800</u>	<u>2,997,021</u>
Total assets	<u>\$ 2,946,242</u>	<u>\$ 25,027,649</u>	<u>\$ 24,753,747</u>	<u>\$ 3,220,144</u>
LIABILITIES				
Agency liabilities	\$ 202,514	\$ 13,614,819	\$ 13,594,210	\$ 223,123
Service awards	<u>2,743,728</u>	<u>437,093</u>	<u>183,800</u>	<u>2,997,021</u>
Total liabilities	<u>\$ 2,946,242</u>	<u>\$ 14,051,912</u>	<u>\$ 13,778,010</u>	<u>\$ 3,220,144</u>

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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lancaster, New York (the "Town") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings as items 2012-01 and 2012-02 that we consider to be significant deficiencies.

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*.

Town's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drescher & Malecki LLP

June 4, 2013

TOWN OF LANCASTER, NEW YORK
Schedule of Findings
Year Ended December 31, 2012

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

Finding 2012-1—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 departments 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 2012-2—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 should be 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 formal written policies or procedures in place regarding information security, passwords, backups, disaster recovery, and formal informational technology risk assessments.

Effect—The absence of a formal written 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 written 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 conducting 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 conduct 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.