

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TOWN OF HIGHLANDS, NEW YORK

For the Year Ended December 31, 2013

Audited for:

Town Board

TOWN OF HIGHLANDS, NEW YORK

Audited By:

Vanacore, DeBenedictus, DiGiovanni &

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TOWN OF HIGHLANDS, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

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 Highlands, New York, as of and for the year ended December 31, 2013, 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 controls 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 an opinion 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 of 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 previously 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 of Highlands, New York, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended, in conformity 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, schedule of funding progress and budgetary comparison information on pages 3 through 8 and 40 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 of Highlands' basic financial statements. The accompanying combining statements and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and schedule of indebtedness are the responsibility of management and was derived from and relates 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 statements and schedule of indebtedness 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 August 1, 2014 on our consideration of the Town of Highlands' 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 of Highlands' internal control over financial reporting and compliance.

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
August 1, 2014

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The accompanying management discussion and analysis of the Town of Highlands' financial performance has been prepared to provide an overview of the Town's financial activities for the fiscal year ended December 31, 2013. This discussion and analysis is only an introduction and should be read in conjunction with the Town's financial statements.

Requests For Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Supervisor's office at the Town of Highlands, 254 Main Street, Highland Falls, NY 10928.

Financial Highlights

- The assets of the Town of Highlands exceeded its liabilities at the close of the fiscal year by \$7,895,168.
- The government's total net position increased by \$690,363 during 2013.
- During the year ended December 31, 2013, GASB standards regarding other post-employment benefits resulted in recording an additional liability and additional expenditures (employee benefits) in the amount of \$290,000, which decreased net assets for the current year by \$290,000.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$4,550,007, an increase of \$183,767 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$1,456,393. Of this total, \$525,000 was assigned and \$931,393 was unassigned.
- The Town received a \$1,194,682 contribution toward the construction of Water District No. 2 from a private trust.

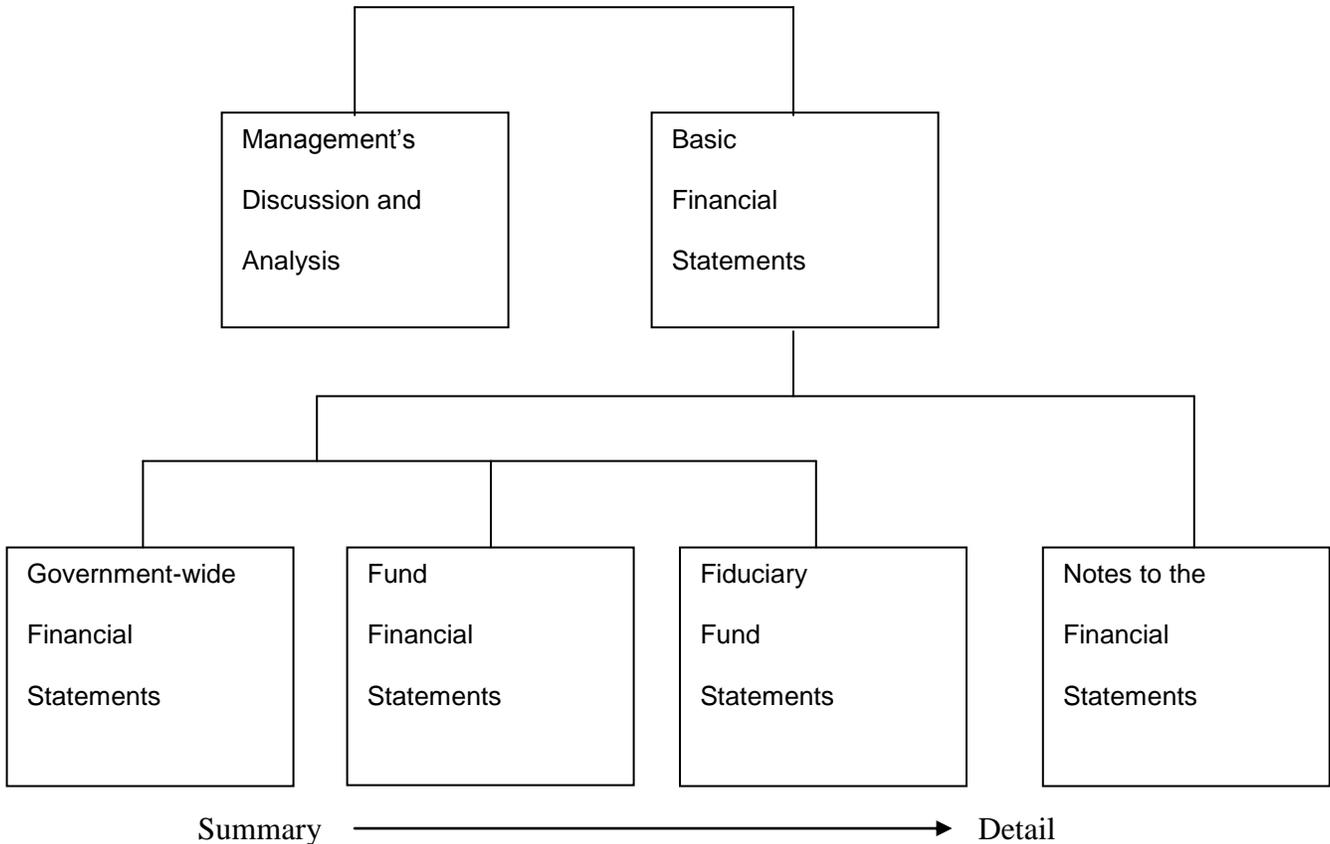
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Highlands' basic financial statements. The Town's basic financial statements consist of four components; 1) government-wide financial statements, 2) fund financial statements, 3) fiduciary fund statements and 4) notes to the financial statements. The basic financial statements present two different views of the Town's financial position through the use of government-wide statements and fund financial statements. Each view will be explained in more detail to follow in this narrative. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Highlands, New York.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental and fiduciary fund statements and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

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 two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government activities include most of the Town's basic services such as public safety, water & sewer, road maintenance and administration. Property tax, sales tax, charges for services and State aid finance most of these activities.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. 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 of Highlands, like all other governmental entities in New York, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Highlands are classified in two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Fiduciary Funds – The Town acts in an agency capacity for assets that are ultimately transferred to others, such as guarantee and bid deposits. The Town also holds assets in an expendable trust fund to be used for cemetery maintenance and preservation. These funds are excluded from the government-wide financial statements because the Town cannot use these assets to finance operations.

The Town of Highlands adopts an annual budget for certain funds as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town of Highlands, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statements demonstrate how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual revenues, expenditures and ending balances; and 4) the variance between the final budget and actual revenues and expenditures.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**TOWN OF HIGHLANDS
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' NET POSITION

	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 4,891,985	\$ 4,682,939
Capital Assets	6,367,898	4,518,274
Total Assets	<u>11,259,883</u>	<u>9,201,213</u>
Debt Outstanding	1,629,416	548,300
Other Liabilities	1,735,299	1,448,108
Total Liabilities	<u>3,364,715</u>	<u>1,996,408</u>
Net Position:		
Invested in Capital Assets, Net of Debt	4,738,482	3,969,974
Restricted	2,147,067	2,350,290
Unrestricted	1,009,619	884,541
Total Net Position	<u>\$ 7,895,168</u>	<u>\$ 7,204,805</u>

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' CHANGES IN NET POSITION

	2013	%	2012	%
Revenues:				
Program Revenues:				
Charges for Services	\$ 1,074,004	16.55%	\$ 1,173,425	22.42%
Operating and Capital Grants	1,651,422	25.45%	299,723	5.73%
General Revenues:				
Real Property Taxes	2,858,638	44.05%	2,807,465	53.64%
Real Property Tax Items	4,939	0.08%	1,452	0.03%
Non Property Taxes	783,953	12.08%	771,075	14.73%
Departmental Income	10,157	0.16%	4,209	0.08%
Intergovernmental Charges	-	0.00%	100,000	1.91%
Use of Money and Property	16,965	0.26%	25,975	0.50%
Licenses and Permits	15,768	0.24%	13,155	0.25%
Gain of Disposal of Assets	11,416	0.18%	(11,411)	-0.22%
Miscellaneous	61,444	0.95%	48,549	0.93%
Total Revenues	6,488,706	100.00%	5,233,617	100.00%
Expenses:				
General Government	841,469	14.51%	904,710	16.01%
Public Safety	870,782	15.02%	869,063	15.38%
Public Health	234,132	4.04%	222,156	3.93%
Transportation	488,538	8.43%	541,184	9.58%
Economic Assistance and Opportunity	14,093	0.24%	18,630	0.33%
Culture and Recreation	454,091	7.83%	464,510	8.22%
Home and Community Services	943,994	16.28%	685,274	12.13%
Water Utilities	223,623	3.86%	223,592	3.96%
Sewer Utilities	97,861	1.69%	97,432	1.72%
Interest on Debt	13,967	0.24%	18,253	0.32%
Employee Benefits	1,275,319	21.99%	1,278,673	22.63%
Depreciation	340,474	5.87%	327,272	5.79%
Total Expenses	5,798,343	100.00%	5,650,749	100.00%
Increase/(Decrease) in Net Assets	\$ 690,363		\$ (417,132)	

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Town of Highlands Funds

As noted earlier, the Town of Highlands uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Town of Highlands' governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the Town of Highlands' financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, the unrestricted fund balance of the General Fund was \$1,456,393. As a measure of the General Fund's liquidity, it may be useful to compare the unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 37 percent of total General Fund expenditures.

At December 31, 2013, the governmental funds of the Town of Highlands reported a combined fund balance of \$4,550,007, a less than 5 percent increase from last year. Included in this change in fund balance is an increase in the Highway, Water, Sewer, Capital Projects, Lighting and Ambulance Funds and a decrease in the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the General Fund budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for its governmental activities as of December 31, 2013 totals \$6,367,898 (net of accumulated depreciation). These assets include land, buildings and improvements, land improvements, machinery & equipment, roads & infrastructure and vehicles.

Debt: As of December 31, 2013, the Town of Highlands had total debt outstanding of \$1,629,416. The debt is backed by the full faith and credit of the Town. The Town's total debt increased by \$1,081,116 during the 2013 fiscal year.

For more detailed information on capital assets and long-term debt, see the notes to the basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 4,191,540
Accounts Receivable	374,682
Due from Other Governments	187,738
Prepaid Expenses	138,025
	<u>4,891,985</u>
Capital Assets, not being depreciated	712,464
Capital Assets, being depreciated - net	5,655,434
Total Capital Assets, net (Note V)	<u>6,367,898</u>
Total Assets	<u>11,259,883</u>
LIABILITIES	
Accounts Payable	192,806
Accrued Expenditures	105,421
Capital Project Advance	25,000
Noncurrent Liabilities:	
Due and Payable Within One Year:	
Bonds Payable (Note VI)	174,200
Due and Payable More Than One Year:	
Bonds Payable (Note VI)	1,455,216
Compensated Absences (Note VI)	252,072
Other Postemployment Benefits (Note VI)	1,160,000
Total Liabilities	<u>3,364,715</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	4,738,482
Restricted	2,147,067
Unrestricted	1,009,619
Total Net Position	<u>\$ 7,895,168</u>

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>FUNCTIONS/PROGRAMS</u>					
Primary Government:					
Governmental Activities:					
General Government	\$ (1,149,485)	\$ 5,710	\$ 244,205	\$ -	\$ (899,570)
Public Safety	(1,287,620)	306,354	3,195	-	(978,071)
Public Health	(361,229)	133,693	-	-	(227,536)
Transportation	(793,967)	2,154	27,935	-	(763,878)
Economic Assistance and Opportunity	(14,093)	-	-	-	(14,093)
Culture and Recreation	(574,974)	22,880	-	-	(552,094)
Home and Community Services	(1,211,029)	68,850	80,594	1,295,493	233,908
Water Utilities	(231,091)	262,725	-	-	31,634
Sewer Utilities	(160,888)	271,638	-	-	110,750
Interest on Debt	(13,967)	-	-	-	(13,967)
Total Primary Government	\$ (5,798,343)	\$ 1,074,004	\$ 355,929	\$ 1,295,493	(3,072,917)
General Revenues:					
Real Property Taxes					2,858,638
Real Property Tax Items					4,939
Non Property Taxes					783,953
Departmental Income					10,157
Use of Money and Property					16,965
Licenses and Permits					15,768
Gain on Disposal of Assets					11,416
Miscellaneous					61,444
Total General Revenues					3,763,280
Change in Net Position					690,363
Net Position - Beginning					7,204,805
Net Position - Ending					\$ 7,895,168

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 2,735,670	\$ 408,790	\$ 24,012	\$ 421,649	\$ 355,673	\$ 245,746	\$ 4,191,540
Accounts Receivable	123,514	7,531	50,146	173,491	-	-	354,682
Due from Other Funds (Note IV)	-	-	-	72,718	-	-	72,718
Due from Other Governments	187,738	-	-	-	-	-	187,738
Prepaid Expenses	111,540	14,429	591	3,302	-	8,163	138,025
Total Assets	\$ 3,158,462	\$ 430,750	\$ 74,749	\$ 671,160	\$ 355,673	\$ 253,909	\$ 4,944,703
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 85,172	\$ 8,887	\$ 5,754	\$ 6,783	\$ 76,536	\$ 9,674	\$ 192,806
Accrued Expenditures	78,867	13,186	348	5,556	-	6,215	104,172
Capital Projects Advance	-	-	-	-	25,000	-	25,000
Due to Other Funds (Note IV)	-	72,718	-	-	-	-	72,718
Total Liabilities	164,039	94,791	6,102	12,339	101,536	15,889	394,696
Fund Balances:							
Nonspendable	111,540	14,429	591	3,302	-	8,163	138,025
Restricted	1,426,490	238,664	-	141,539	254,137	86,237	2,147,067
Assigned	525,000	82,866	68,056	513,980	-	143,620	1,333,522
Unassigned	931,393	-	-	-	-	-	931,393
Total Fund Balances	2,994,423	335,959	68,647	658,821	254,137	238,020	4,550,007
Total Liabilities and Fund Balances	\$ 3,158,462	\$ 430,750	\$ 74,749	\$ 671,160	\$ 355,673	\$ 253,909	\$ 4,944,703

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
RECONCILIATION OF THE TOTAL GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Total Governmental Funds	Long-Term Assets and Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
ASSETS				
Cash and Cash Equivalents	\$ 4,191,540	\$ -	\$ -	\$ 4,191,540
Accounts Receivable	354,682	20,000	-	374,682
Due from Other Funds	72,718	-	(72,718)	-
Due from Other Governments	187,738	-	-	187,738
Prepaid Expenses	138,025	-	-	138,025
Capital Assets, Net	-	6,367,898	-	6,367,898
Total Assets	<u>\$ 4,944,703</u>	<u>\$ 6,387,898</u>	<u>\$ (72,718)</u>	<u>\$ 11,259,883</u>
LIABILITIES AND FUND BALANCES				
Accounts Payable	\$ 192,806	\$ -	\$ -	\$ 192,806
Accrued Expenditures	104,172	1,249	-	105,421
Capital Project Advance	25,000	-	-	25,000
Due to Other Funds	72,718	-	(72,718)	-
Bonds Payable	-	1,629,416	-	1,629,416
Compensated Absences Payable	-	252,072	-	252,072
Other Postemployment Benefits	-	1,160,000	-	1,160,000
Total Liabilities	<u>394,696</u>	<u>3,042,737</u>	<u>(72,718)</u>	<u>3,364,715</u>
Total Fund Balances	<u>4,550,007</u>	<u>3,345,161</u>	<u>-</u>	<u>7,895,168</u>
Total Liabilities and Fund Balances	<u>\$ 4,944,703</u>	<u>\$ 6,387,898</u>	<u>\$ (72,718)</u>	<u>\$ 11,259,883</u>

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:							
Real Property Taxes	\$ 2,170,393	\$ 442,500	\$ -	\$ -	\$ -	\$ 245,745	\$ 2,858,638
Real Property Tax Items	4,939	-	-	-	-	-	4,939
Non Property Tax Items	783,953	-	-	-	-	-	783,953
Departmental Income	99,446	-	262,725	278,686	-	133,693	774,550
Intergovernmental Charges	3,709	-	-	-	-	-	3,709
Use of Money and Property	15,229	927	22	492	-	295	16,965
Licenses and Permits	58,095	-	-	-	-	-	58,095
Fines and Forfeitures	263,575	-	-	-	-	-	263,575
Sale of Property and Compensation for Loss	10,046	1,370	-	-	-	-	11,416
Miscellaneous	42,096	-	18,740	594	1,295,493	14	1,356,937
State and Federal Aid	323,221	27,935	-	4,773	-	-	355,929
Total Revenues	3,774,702	472,732	281,487	284,545	1,295,493	379,747	6,488,706
Expenditures:							
General Government	846,696	571	40	196	-	428	847,931
Public Safety	878,320	-	-	-	-	-	878,320
Public Health	27,708	-	-	-	-	208,500	236,208
Transportation	173,964	274,498	-	-	-	44,229	492,691
Economic Assistance and Opportunity	14,093	-	-	-	-	-	14,093
Culture and Recreation	456,587	-	-	-	-	-	456,587
Home and Community Services	644,062	-	223,784	98,674	303,748	-	1,270,268
Employee Benefits	762,129	103,653	5,851	14,798	-	98,888	985,319
Capital Outlay	117,128	47,990	-	34,771	1,990,209	-	2,190,098
Debt Service	-	-	28,600	99,540	-	-	128,140
Total Expenditures	3,920,687	426,712	258,275	247,979	2,293,957	352,045	7,499,655
Excess/(Deficiency) of Revenues Over Expenditures	(145,985)	46,020	23,212	36,566	(998,464)	27,702	(1,010,949)
Other Financing Sources/(Uses):							
Interfund Transfers In	-	232,301	-	-	-	-	232,301
Interfund Transfers Out	(232,301)	-	-	-	-	-	(232,301)
Proceeds from Obligations	-	-	-	-	1,194,716	-	1,194,716
Total Financing Sources/(Uses)	(232,301)	232,301	-	-	1,194,716	-	1,194,716
Change in Fund Balances	(378,286)	278,321	23,212	36,566	196,252	27,702	183,767
Fund Balances - Beginning	3,372,709	57,638	45,435	622,255	57,885	210,318	4,366,240
Fund Balances - Ending	\$ 2,994,423	\$ 335,959	\$ 68,647	\$ 658,821	\$ 254,137	\$ 238,020	\$ 4,550,007

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Total Governmental Funds	Long-Term Revenue, Expenses	Capital Related Items	Long-Term Debt Transactions	Reclassifications and Eliminations	Statement of Net Assets Totals
Revenues:						
Real Property Taxes	\$ 2,858,638	\$ -	\$ -	\$ -	\$ -	\$ 2,858,638
Real Property Tax Items	4,939	-	-	-	-	4,939
Non Property Tax Items	783,953	-	-	-	-	783,953
Departmental Income	774,550	-	-	-	-	774,550
Intergovernmental Charges	3,709	-	-	-	-	3,709
Use of Money and Property	16,965	-	-	-	-	16,965
Licenses and Permits	58,095	-	-	-	-	58,095
Fines and Forfeitures	263,575	-	-	-	-	263,575
Sale of Property and Compensation for Loss	11,416	-	-	-	-	11,416
Miscellaneous	1,356,937	-	-	-	-	1,356,937
State and Federal Aid	355,929	-	-	-	-	355,929
Total Revenues	6,488,706	-	-	-	-	6,488,706
Expenditures:						
General Government	847,931	(6,462)	8,502	-	299,514	1,149,485
Public Safety	878,320	(7,538)	67,471	-	349,367	1,287,620
Public Health	236,208	(2,076)	30,847	-	96,250	361,229
Transportation	492,691	(4,153)	112,948	-	192,481	793,967
Economic Assistance and Opportunity	14,093	-	-	-	-	14,093
Culture and Recreation	456,587	(2,496)	5,184	-	115,699	574,974
Home and Community Services	1,270,268	(3,816)	90,166	-	(145,589)	1,211,029
Employee Benefits	985,319	290,000	-	-	(1,275,319)	-
Capital Outlay	2,190,098	-	(2,190,098)	-	-	-
Water Utilities	-	(161)	-	-	231,252	231,091
Sewer Utilities	-	(813)	25,356	-	136,345	160,888
Debt Service	128,140	(573)	-	(113,600)	-	13,967
Total Expenditures	7,499,655	261,912	(1,849,624)	(113,600)	-	5,798,343
Excess/(Deficiency) of Revenues Over Expenditures	(1,010,949)	(261,912)	1,849,624	113,600	-	690,363
Other Financing Sources/(Uses):						
Interfund Transfers In	232,301	-	-	-	(232,301)	-
Interfund Transfers Out	(232,301)	-	-	-	232,301	-
Proceeds from Obligations	1,194,716	-	-	(1,194,716)	-	-
Total Financing Sources/(Uses)	1,194,716	-	-	(1,194,716)	-	-
Change in Fund Balances	\$ 183,767	\$ (261,912)	\$ 1,849,624	\$ 113,600	\$ -	\$ 690,363

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013**

	Agency Fund	Expendable Trust Fund
ASSETS		
Cash	\$ 103,633	\$ 54,315
Investments	-	31,338
LOSAP Assets	139,618	-
Total Assets	243,251	85,653
LIABILITIES		
Accounts Payable	2,028	-
Guarantee and Bid Deposits	23,090	-
Balances Held in Agency Accounts	139,618	-
Other Liabilities - Parkland	78,515	-
Total Liabilities	243,251	-
NET POSITION		
Held in Trust for Cemetery Maintenance and Preservation	\$ -	\$ 85,653

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Expendable Trust Fund
<hr/>	
INVESTMENT EARNINGS:	
Interest	\$ 1,542
	<hr/>
Change in Net Position	1,542
Net Position Held in Trust - Beginning	84,111
	<hr/>
Net Position Held in Trust - Ending	\$ 85,653
	<hr/> <hr/>

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Highlands, established in 1900, is governed by the Code of the Town of Highlands and other general laws of the State of New York (“the State”) and various local laws. The Town Board is the legislative body responsible for overall operations; the Town Supervisor serves as chief executive officer and as the fiscal officer.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The notes to the financial statements are an integral part of the statements and are intended to be read with them. As of December 31, 2013, the Town had no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 in 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Property 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 period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Highway Fund* is used to account for financial resources to be used for upkeep of the roads within the Town's jurisdiction.

The *Water Fund* is used to account for financial resources to be used for operation and upkeep of the water district within the Town.

The *Sewer Fund* is used to account for financial resources to be used for operation and upkeep of the sewer facility within the Town.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The principal source of financing is from the sale of bonds or bond anticipation notes.

Additionally, the Town reports the following fund types:

Non-major funds:

- The *Lighting District Fund* is used to record operation and maintenance transactions related to the Town's lighting district. Revenues are derived from special district assessments.
- The *Ambulance Fund* is used to record operation and maintenance transactions related to the Town's ambulance district. Revenues are derived from ambulance district assessments.

Fiduciary Funds are used to report assets which are held in a trust or agency capacity for others and are, therefore, not available to support Town programs. The financial statements of the fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

E. Property Taxes

Town real property taxes are levied annually on January 1 and become a lien on that date. Taxes are collected during the period January 1 to January 31 at face value and from February 1 to May 31 with interest added. The Town Receiver of Taxes collects all real estate taxes for Town and County purposes. The Town Receiver distributes the collected tax money to the Town Supervisor prior to distributing the remaining balance collected to the County on June 1. The Town thereby is assured of 100% tax collection. Responsibility for the collection of unpaid taxes rests with the County. Uncollected tax liens are sold annually by the County.

F. Budgetary Data

The budget policies are as follows:

1. No later than October 5th, the budget officer submits a tentative budget to the Town Board for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and estimated revenue as the means of financing for all funds.
 - a. After public hearings are conducted to obtain taxpayers' comments, the governing body adopts the budget no later than November 20th.
 - b. All modifications of the budget must be approved by the Town Board; however, the Town Supervisor is authorized to transfer certain budgeted amounts within the departments.
2. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all funds. Encumbrances are reported as assignments of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

G. Cash and Investments

The Town of Highlands' investment policies are governed by State statutes. In addition, the Town of Highlands has its own written investment policy. The Town's 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.

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

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 and New York State. Underlying securities must have market value of at least the cost of the repurchase agreement.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

I. Due To/From Other Funds

Amounts due to and due from within the same fund type have been eliminated in the Government-wide statements. See Note IV for a schedule detailing the interfund balances.

J. Inventories and Prepaid Items

Purchases of inventorable items are recorded as expenditures in the Government Funds at the time of purchase. Inventory-type items are considered immaterial and, consequently, are not provided in the Government-wide statements.

Prepaid items represent payments made by the Town for which benefits extend beyond year-end.

K. Capital Assets

Capital assets are reported at historical costs. The Town depreciates capital assets using the straight line method over the estimated useful lives of the assets. Capitalization thresholds and estimated lives of assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 5,000	15 - 50 years
Machinery and Equipment	5,000	5 - 15 years
Vehicles	5,000	5 - 15 years
Land Improvements	25,000	15 - 25 years

L. Infrastructure

The Town includes long-lived improvements to roads, water and sewer systems as capital assets in the Government-wide statements. Infrastructure is reported at historical costs and is depreciated using the straight-line method over the estimated useful lives.

Under the implementation standards of GASB 34, the Town is considered a small government and, as such, is required only to recognize infrastructure on a prospective basis. Therefore, the Town has not retroactively reported any major general infrastructure assets prior to January 1, 2004.

Capitalization thresholds and estimated useful lives for infrastructure are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Roads and Infrastructure	\$ 25,000	20 - 40 years

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. Vested Employee Benefits

Employees accrue (earn) vacation leave based on the number of years employed, up to a maximum of 30 days per year. Upon separation from service, employees are paid for unused vacation time.

Employees accrue (earn) sick leave at the rate of 3.7 or 4 hours per pay period and may accumulate such credits up to a total of 180 days or an unlimited amount depending on the employee's classification. Employees who retire apply any unused sick leave to pay for individual cost employee health insurance benefits and may potentially have accumulated sick time credited to their service time in the New York State Retirement System.

A liability for accrued vacation and sick time is reflected in the Government-wide statements under the heading "Compensated Absences."

The Town's employees participate in the New York State Employees' Retirement System and New York State Police and Fire Retirement System.

In addition to providing pension benefits, the Town of Highlands provides health insurance coverage for retired employees. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year for the Town of Highlands. The Town records its share of insurance premiums as an expenditure in the governmental funds during the year paid.

N. Unemployment Insurance

Town employees are covered by unemployment insurance. The Town has chosen to discharge its liability to the New York State Unemployment Insurance Fund by means of the benefit reimbursement method. This is a dollar-for-dollar reimbursement to the Unemployment Insurance Fund for the benefits paid to former employees and charged to the Town's account. The Town is exempt from federal unemployment insurance tax.

O. Deferred Compensation

The Town, through the New York State Retirement Systems, offers their employees a Deferred Compensation Plan ("the Plan") created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all eligible participants, permits participants to defer a portion of their salary (up to the IRS limits) until future years. Amounts deferred under the Plan are not available to the employee until termination, retirement, death or unforeseeable emergency. The Town does not contribute to or administer the Plan.

P. Risk Retention

The Town assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Q. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Town's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Equity Classification

a. Government-wide Statements

Equity is classified as net position and displayed in three components:

- Invested in Capital Assets, Net of Related Debt

Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- Restricted Net Position

Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

- Unrestricted Net Position

All remaining net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

b. Fund Financial Statements

The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The purpose of this accounting standard is to provide fund balance categories and classification that will be more easily understood by users of financial statements and consistently applied in fund balance reporting. This standard sets forth hierarchical fund balance classifications that are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The following is a brief description of the five fund balance classifications:

Nonspendable:

Amounts that cannot be spent in the current period either because of their form or because they must be maintained intact. Prepaid expenses are nonspendable because, by definition, the money has already been spent.

Restricted:

Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments or through constitutional provisions or enabling legislation.

Committed:

Amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision making authority (the Town Board) before the end of the fiscal year. The same level of formal action is required to remove the constraint.

Assigned:

Amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision making authority 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.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Equity Classification - Continued

Unassigned:

Represents the residual amount of fund balance in the general fund. In funds other than the general fund, this should only be used to report a deficit balance.

Restricted fund balances:

Various New York State statutes allow local governments to establish reserve funds for various purposes. Since the State regulates the establishment, funding and use of these reserves, the Town has classified the following reserve funds as restricted fund balances:

a. The General Town-Wide Fund includes reserve funds established for future repair, improvement and renovation projects and for vehicles. The balance at the end of 2013 was \$1,266,572.

b. The General Town-Outside Village Fund includes reserve funds established for the acquisition of police vehicles. The balance at the end of 2013 was \$159,918.

c. The Highway Town-Wide Fund includes reserve funds established for future equipment repairs. The balance at the end of 2013 was \$88,664.

d. The Highway Town-Outside Village Fund includes reserve funds established for future road repairs. The balance at the end of 2013 was \$150,000.

e. The Sewer Fund includes reserve funds established for capital improvements. The balance at the end of 2013 was \$141,539.

f. The Ambulance Fund includes reserve funds established for future capital expenditures. The balance at the end of 2013 was \$86,237.

S. Interfund Transfers

The operations of the Town give rise to certain transactions between funds, including transfers to provide services and construct assets. The amounts reported on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for interfund transfers have been eliminated for the Statement of Activities. A description of the individual fund transfers that occurred during the year is provided in Note IV.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The differences result primarily from the economic focus of the government-wide statements, compared with the current financial resources focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities:

Total fund balances of the Town's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

The basic financial statements contain a detailed reconciliation of the items creating the differences between fund balance reported in the Governmental Fund Statements and Net Position reported on the Statement of Net Position.

- (1) The costs of building and acquiring capital assets (land, infrastructure, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the Town as a whole, with their original costs capitalized and depreciation expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 9,602,780
Accumulated Depreciation	<u>(3,234,882)</u>
Capital Assets, Net	<u><u>\$ 6,367,898</u></u>

- (2) Long-term receivables are reported in the Statement of Net Position, but not in the governmental funds, because they are not expected to be received in the current period. Balances at year-end were:

Dial-A-Bus Receivable	<u><u>\$ 20,000</u></u>
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- (3) Interest payable is recognized in the government-wide statements under full accrual accounting. No accrual is recognized in the governmental fund statements for interest that was not paid from current financial resources.

Interest Payable at December 31, 2013	<u><u>\$ 1,249</u></u>
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- (4) Long-term liabilities are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and Installment Obligations Payable	\$ 1,629,416
Compensated Absences Payable	252,072
Other Postemployment Benefits	<u>1,160,000</u>
	<u><u>\$ 3,041,488</u></u>

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2013**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities:

Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of three broad categories.

- Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.
- Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.
- Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements when paid, whereas interest payments are recorded in the Statement of Activities as incurred and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

The basic financial statements contain a detailed reconciliation of the items creating the differences between the change in fund balance reported in the governmental fund statements and the change in net position reported in the Statement of Activities.

Total Revenues and Other Funding Sources

Total revenues reported in governmental funds	\$ 6,488,706
Dial-A-Bus Federal Aid prior year receivable	(20,000)
Dial-A-Bus Federal Aid current year receivable	20,000
Total revenues reported in the Statement of Activities	\$ 6,488,706

Total Expenditures/Expenses

Total expenditures reported in governmental funds	\$ 7,499,655
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In the Statement of Activities, certain operating expenses (compensated absences) 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.) This is the amount by which the liability for compensated absences decreased during the year. (27,515)

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the year they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$2,190,098 exceeded depreciation expense of \$340,474 in the current year. (1,849,624)

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2013**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities – Continued

Total Expenditures/Expenses (Continued)

In the statement of activities, the expenses for other postemployment benefits are measured based on the actuarially determined annual required contribution (ARC) of the Town. In the governmental funds, however, these expenditures are measured by the amount of financial resources used (essentially the amounts paid). This is the amount by which the ARC exceeded the amount of financial resources used during the year. 290,000

Interest payable is recognized in the entity wide statements under full accrual accounting whereas it is recognized when paid in the governmental fund statements. This is the amount by which interest payable for the prior year exceeded the interest payable for the current year. (573)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities. (113,600)

Total expenditures reported in the Statement of Net Position \$ 5,798,343

III. CASH

The Town of Highlands’ investment policies are governed by State statutes, as previously described in these Notes. The depository bank places approved pledged securities for safekeeping and trust with the Town’s agent bank in an amount sufficient to protect Town funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) Insurance.

At December 31, 2013, the carrying amount of the Town’s deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$4,349,488 and the bank balance was \$4,403,209. The Town’s deposits at December 31, 2013, and during the year then ended, were entirely covered by FDIC Insurance or by pledged collateral held by the Town’s agent bank in the Town’s name.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

IV. INTERFUND ACTIVITY

Interfund receivables and payables at December 31, 2013 were as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Highway Outside Village	\$ -	\$ 72,718
Sewer	72,718	-
	<hr/>	<hr/>
TOTAL	<u>\$ 72,718</u>	<u>\$ 72,718</u>

Interfund revenues and expenditures at December 31, 2013 were as follows:

<u>Funds</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Outside Village	\$ -	\$ 232,301
Highway Outside Village	232,301	-
	<hr/>	<hr/>
TOTAL	<u>\$ 232,301</u>	<u>\$ 232,301</u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

V. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2013 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 682,464	\$ 30,000	\$ -	\$ 712,464
Total capital assets, not being depreciated	<u>682,464</u>	<u>30,000</u>	<u>-</u>	<u>712,464</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,575,564	2,052,849	-	3,628,413
Land Improvements	853,360	17,990	-	871,350
Machinery and Equipment	667,197	59,125	-	726,322
Roads and Infrastructure	2,053,999	-	-	2,053,999
Vehicles	1,580,098	30,134	-	1,610,232
Total capital assets being depreciated	<u>6,730,218</u>	<u>2,160,098</u>	<u>-</u>	<u>8,890,316</u>
Accumulated depreciation for:				
Buildings and Improvements	(791,972)	(50,684)	-	(842,656)
Land Improvements	(142,575)	(42,991)	-	(185,566)
Machinery and Equipment	(413,857)	(41,021)	-	(454,878)
Roads and Infrastructure	(460,645)	(73,426)	-	(534,071)
Vehicles	(1,085,359)	(132,352)	-	(1,217,711)
Total accumulated depreciation	<u>(2,894,408)</u>	<u>(340,474)</u>	<u>-</u>	<u>(3,234,882)</u>
Total capital assets, being depreciated, net	<u>3,835,810</u>	<u>1,819,624</u>	<u>-</u>	<u>5,655,434</u>
Governmental activities capital assets, net	<u>\$ 4,518,274</u>	<u>\$ 1,849,624</u>	<u>\$ -</u>	<u>\$ 6,367,898</u>

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental Activities:	
General Government	\$ 8,502
Public Safety	67,471
Public Health	30,847
Transportation	112,948
Culture and Recreation	5,184
Home and Community Services	90,166
Sewer Utilities	<u>25,356</u>
Total Depreciation Expense	<u>\$ 340,474</u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

VI. LIABILITIES

A. Pension Plans

Plan Description

The Town of Highlands participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). 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 the 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, New York 12244.

Funding Policy

The Systems are noncontributory except for Tier III, IV, V and VI employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% to 6% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of member payroll and employer contributions, used in computing the contributions required to be made by employers to the pension accumulation fund. An Eligible Tier III or IV member with ten or more years of membership, or ten years credited service, will not be required to contribute to the Retirement System. Tier V and VI members must continue to contribute throughout their employment.

The Town of Highlands is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PERS</u>
2013	\$ 240,890	\$ 91,506
2012	\$ 281,258	\$ 76,547
2011	\$ 216,094	\$ 49,000

The Town contributions made to the Systems were equal to 100% of the contributions required for each year. Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

VI. LIABILITIES - CONTINUED

B. Short-Term Debt

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. As of December 31, 2013, the Town had no Bond Anticipation Notes (BANs) outstanding.

C. Long-Term Debt

Bonds: The Town of Highlands borrows money in order to acquire land or equipment or construct buildings and for capital improvements. This borrowing enables the cost of these capital assets to be borne by the present and future taxpayers.

At December 31, 2013, the total principal indebtedness outstanding of the Town of Highlands aggregated \$1,629,416.

Interest on long-term debt paid during the year was:

Interest Paid	\$ 14,540
Less: Interest accrued - prior year	(1,822)
Plus: Interest accrued - current year	<u>1,249</u>
	<u><u>\$ 13,967</u></u>

Long-term liability balances and activity for the year are summarized below:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
E.F.C. Bond - Water District #2	\$ 278,300	\$ -	\$ 28,600	\$ 249,700
E.F.C. SRF Bond - Water District #2	-	1,194,716	-	1,194,716
Sewer System Refunding Serial Bond	<u>270,000</u>	<u>-</u>	<u>85,000</u>	<u>185,000</u>
	<u>548,300</u>	<u>1,194,716</u>	<u>113,600</u>	<u>1,629,416</u>
Other liabilities:				
Compensated Absences	279,587	-	27,515	252,072
Other Postemployment Benefits	<u>870,000</u>	<u>310,000</u>	<u>20,000</u>	<u>1,160,000</u>
Total long-term liabilities	<u><u>\$ 1,697,887</u></u>	<u><u>\$ 1,504,716</u></u>	<u><u>\$ 161,115</u></u>	<u><u>\$ 3,041,488</u></u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

VI. LIABILITIES - CONTINUED

C. Long-Term Debt - Continued

Activity for compensated absences is shown at net due to the impracticability of determining these amounts separately. Payments of compensated absences are dependent upon future factors and, therefore, the timing of such payments cannot be determined. Compensated absences are reflected as a long-term liability in the Statement of Net Position.

The following is a summary of the maturity of long-term indebtedness:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 174,200	\$ 20,458	\$ 194,658
2015	179,700	33,361	213,061
2016	80,016	28,118	108,134
2017	85,900	27,909	113,809
2018	86,500	27,507	114,007
2019-2023	378,100	125,433	503,533
2024-2028	305,000	91,793	396,793
2029-2033	340,000	39,218	379,218
	<hr/>		
Total	<u>\$ 1,629,416</u>	<u>\$ 393,797</u>	<u>\$ 2,023,213</u>

D. Other Postemployment Benefits

The Town provides post employment health insurance coverage to retired employees through a self-administered single employer plan in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the Town's contractual agreements.

The Town implemented GASB standards regarding Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension in the fiscal year ended December 31, 2009. This implementation required the Town to calculate and record a net other post employment benefit obligation at year end. The net other post employment benefit obligation is the cumulative difference between the actuarially required contributions and the actual contributions made.

The Town recognizes the cost of providing health insurance annually as expenditures in the General Fund in the fund financial statements as payments are made. For the year ended December 31, 2013, the Town recognized \$25,000 for its share of premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of December 31, 2013 which indicates that the total liability for other post employment benefits is \$2,460,000, of which \$1,160,000 is reflected in the Statement of Net Position.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

VI. LIABILITIES – CONTINUED

D. Other Postemployment Benefits - Continued

Annual OPEB Cost and Net OPEB Obligation: The Town's annual other post employment benefit (OPEB) cost is calculated based on the actuarially determined annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the Town's net OPEB obligation:

Annual Required Contribution	\$ 320,000
Interest on Net OPEB Obligation	40,000
Adjustment to Annual Required Contribution	<u>(50,000)</u>
Annual OPEB Cost	310,000
Contributions Made	<u>(20,000)</u>
Increase in Net OPEB Obligation	290,000
Net OPEB Obligation - Beginning of Year	<u>870,000</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,160,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
12/31/2013	\$ 310,000	6.5%	\$ 1,160,000
12/31/2012	\$ 285,000	8.8%	\$ 870,000
12/31/2011	\$ 230,000	4.3%	\$ 610,000

Funded Status and Funding Progress: As of December 31, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,460,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,460,000. 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.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The actuarial funding method used is unit credit. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included 4.5% investment rate of return, net of administrative expense, on the employer's own investment, calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate for pre-65 and post-65 claims of 9.5% initially, reduced incrementally to an ultimate rate of 5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 25 years.

VII. LENGTH OF SERVICE AWARD PROGRAM

The information contained in this note is based on information for the Town of Highlands Ambulance Service Award Program for the program year ended on December 31, 2013, which is the most recent program year for which complete information is available.

The Town of Highlands Ambulance established a defined benefit Service Award Program (referred to as a "LOSAP" - length of service award program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 2002 for the active volunteer ambulance members of the Town of Highlands Ambulance. The program was established pursuant to Article 11-A of the New York State General Municipal Law. The program provides municipally-funded deferred compensation to volunteer ambulance members to facilitate the recruitment and retention of active volunteers. The Town of Highlands Ambulance is the sponsor of the program and the program administrator.

Under the program, participating volunteers begin to be paid a service award upon attainment of the program "entitlement age". The amount of the service award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the program for performing active volunteer ambulance member activities.

Participation, Vesting and Service Credit

Active volunteer ambulance members who have reached the age of 18 and who have completed one (1) year of ambulance member service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with five (5) years of ambulance member service or upon attaining the program's entitlement age while an active volunteer. The program's entitlement age is age 65. An active volunteer ambulance member is credited with a year of ambulance service for each calendar year after the establishment of the program in which he or she has completed a year of credit service. A participant may also receive credit for five (5) years of active volunteer ambulance member service rendered prior to the establishment of the program as an active volunteer ambulance member of the Town of Highlands Ambulance.

Benefits

A participant's service award benefit is paid as a ten year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of service credit earned by the volunteer under the point system. The maximum number of years of service credit a participant may earn is 20 years under the program.

Currently, there are no other forms of payment of a volunteer's earned service award under the Program. Except in the case of death or total and permanent disablement, service awards commence to be paid when a participant attains the entitlement age. The program provides death and disability benefits equal to the greater of insurance face amount or present value of accrued benefit. The program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are "self insured" and are paid from the program trust fund.

For a complete explanation of the program, a copy of the Program Document is available from the Plan Sponsor.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013**

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

Fiduciary Investment and Control

After the end of each calendar year, the Ambulance Corp. prepares and certifies a census listing of names of all persons who were active volunteer members of the Ambulance Corp. during the year and indicates which volunteers earned their year of service credit. The certified list is delivered to the Board Members for review and approval.

The Board Members have retained Hometown Firefighter Services to assist in the administration of the program. The services provided by Hometown Firefighter Services are described in the following paragraphs.

Based on the certified calendar year volunteer ambulance member listings, Hometown Firefighter Services determines and certifies in writing to the Board Members the amount of the service award to be paid to a participant or to a participant's designated beneficiary. The person(s) authorized by the Board Members then authorizes, in writing, the custodian of the Town of Highlands Ambulance Service Award Program trust funds to pay the service award. No service award benefit payment is made without the written certification from Hometown Firefighter Services and the written directive from the authorized representative of the Board Members.

Hometown Firefighter Services bills the Town of Highlands Ambulance Corp. for the services it provides. Hometown Firefighter Services' invoices are authorized for payment by the Board Members in the same manner as any other invoice presented to the Ambulance Corp. for payment. Hometown Firefighter Services invoices are paid from the Ambulance Fund.

Article 11-A requires that program assets be held in trust 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 Board Members created a Service Award Program Trust Fund through the adoption of a Trust Document, a copy of which is available from Hometown Firefighter Services.

Authority to invest the program assets is vested in the program trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with the written investment policy statement adopted by the Board Members.

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Accrued Service Awards as of December 31, 2013	\$	320,896
Total Net Assets Available for Benefits as of December 31, 2013	\$	139,618

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2013**

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

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 are:

Assumed rate of return on program investments 5.50%

Tables used for:

Post Entitlement Age mortality:	1994 Group Annuity - Male
*Pre Entitlement Age mortality:	None
*Pre Entitlement Age disability:	None
*Pre Entitlement Age withdrawal:	None
*Pre Entitlement Age service credit accruals	100%

* For program cost calculation purposes, all pre-entitlement age active volunteer participants are assumed to survive to the entitlement age; remain active and earn a service credit each year; and, begin to be paid service awards upon attainment of the entitlement age.

The following information was compiled for 2012.

Receipts and Disbursements

Plan Net Position, January 1, 2013	\$ 123,509
Changes during the year:	
+ Plan Contributions	30,200
+ Investment Income Earned	4,826
- Plan Administration Fees	(4,517)
- Plan Benefit Withdrawals	(14,400)
	<hr/>
Plan Net Position, December 31, 2013	<u><u>\$ 139,618</u></u>

Contributions

Amount of contribution recommended by actuary:	\$ 47,390
Amount of actual contribution:	\$ 30,200

VIII. UNRESTRICTED BALANCES

As of December 31, 2013, the Town's unrestricted net position totaled \$1,009,619.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

IX. LEASES

The Town leases two pieces of office equipment under operating leases expiring at various dates through July 2016. The total minimum rental commitment at December 31, 2013, under the leases mentioned above, is due as follows:

2014	\$ 3,823
2015	2,808
2016	1,638
	<u>\$ 8,269</u>

Rental expense included in the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended December 31, 2013 related to the leases mentioned above was \$4,728.

X. CONTINGENCIES

Grant Funding

The Town has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. Based on past audits, the Town administration believes disallowances, if any, will be immaterial.

Judgments and Claims

The Town is party to various legal proceedings which normally occur in governmental operations. In the opinion of the Town's management, any potential claims against the Town not covered by various insurance policies will not have a materially adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded as of December 31, 2013.

Certiorari Proceedings

Open tax certiorari cases exist with several taxpayers. These cases claim excessive assessed values resulting in approximately \$335,309 of property taxes for the tax years 2006 through 2013. Claims allowed, if any, will result in a refund of Town taxes previously collected by the Town. Any such refunds resulting from adverse settlements will be provided for when determinable.

XI. NEW ACCOUNTING PRINCIPLES

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Town will adopt GASB 68 in fiscal year 2015, as required.

XII. SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2013, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is August 1, 2014, which is the date on which the financial statements were available to be issued. During 2013, the Town received short-term E.F.C. financing for the Water District #2 capital project. In May 2014, this debt was refinanced into a 20 year bond. Since the refinancing occurred prior to the issuance of the 2013 audited financial statements, the new terms have been reflected herein.



INDEPENDENT AUDITOR'S 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

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Highlands, New York as of and the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town of Highlands' basic financial statements, and have issued our report thereon dated August 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Highlands' 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 of Highlands' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Highlands' 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 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as 13-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Highlands' financial statements are free from 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 of Highlands' Response to Findings

The Town of Highlands' response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Town of Highlands' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
August 1, 2014

**TOWN OF HIGHLANDS
SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

A. Internal Control Findings

Significant Deficiencies in Internal Control

13-1 Trust & Agency

Condition: Some Escrow account balances are negative. Additionally, some amounts were entered into the accounts payable account in Trust & Agency and have remained there for 3 years.

Criteria: The Town should maintain support for all amounts held in Trust and Agency. Accounts should also be monitored to ensure that overpayments do not occur. Control over escrow accounts is important in order to support balances and is also a good internal control against fraud.

Cause: Internal control procedures need to be developed over escrow accounts.

Effect: Escrow accounts have either been overspent or the balances are inaccurate.

Recommendation: We recommend collecting escrow money before paying it in order to avoid borrowing from the Town or other individuals' accounts. Additionally, we recommend that all Trust & Agency account balances be reviewed, support be accumulated, and balances be adjusted to actual amounts.

Management's Response: During fiscal 2014, the Comptroller has reviewed all Trust and Agency transactions prior to any payments being made on behalf of those accounts. The Comptroller is also in the process of implementing a system within the financial accounting software so that the record keeping will no longer be manual.

B. Compliance Findings

No compliance findings noted.

**TOWN OF HIGHLANDS
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

	2013	Fiscal Year 2012	2011
Actuarial Valuation Date	1/1/2014	1/1/2013	1/1/2012
Plan Assets	Unfunded	Unfunded	Unfunded
Actuarial Accrued Liability	\$ 2,460,000	\$ 2,170,000	\$ 1,780,000
Unfunded Actuarial Liability	\$ 2,460,000	\$ 2,170,000	\$ 1,780,000
Funded Ratio	Not Applicable	Not Applicable	Not Applicable
Annual Covered Payroll	\$ 930,000	\$ 990,000	\$ 990,000
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	264.5%	219.2%	179.8%

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 2,169,511	\$ 2,169,511	\$ 2,169,511	\$ -
Real Property Tax Items	3,000	3,000	4,939	1,939
Non Property Tax Items	30,000	30,000	31,838	1,838
Departmental Income	93,846	96,664	96,481	(183)
Use of Money and Property	19,900	19,900	14,148	(5,752)
Licenses and Permits	25,050	25,050	58,095	33,045
Fines and Forfeitures	358,000	350,000	263,575	(86,425)
Sale of Property and Compensation for Loss	-	-	666	666
Miscellaneous	7,500	30,351	42,096	11,745
State and Federal Aid	196,000	204,000	320,026	116,026
Total Revenues	2,902,807	2,928,476	3,001,375	72,899
Expenditures:				
General Government	993,769	1,009,238	802,482	206,756
Public Safety	168,595	171,219	159,809	11,410
Transportation	162,764	176,255	173,964	2,291
Economic Assistance and Opportunity	24,000	24,000	14,093	9,907
Culture and Recreation	468,769	494,582	456,587	37,995
Home and Community Services	724,175	720,538	627,489	93,049
Employee Benefits	696,800	694,387	585,347	109,040
Capital Outlay	20,675	21,130	86,994	(65,864)
Total Expenditures	3,259,547	3,311,349	2,906,765	404,584
Excess/(Deficiency) of Revenues Over Expenditures	(356,740)	(382,873)	94,610	477,483
Other Financing Sources:				
Operating Transfers In/(Out)	18,740	18,740	-	(18,740)
Net Change in Fund Balance	(338,000)	(364,133)	94,610	458,743
Fund Balances - Beginning	1,733,117	1,733,117	1,733,117	-
Fund Balances - Ending	\$ 1,395,117	\$ 1,368,984	\$ 1,827,727	\$ 458,743

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 882	\$ 882	\$ 882	\$ -
Non-Property Tax Items	710,000	710,000	752,115	42,115
Departmental Income	3,900	3,900	2,965	(935)
Intergovernmental Charges	8,000	8,000	3,709	(4,291)
Use of Money and Property	1,600	1,600	1,081	(519)
Sale of Property and Compensation for Loss	-	-	9,380	9,380
State and Federal Aid	-	-	3,195	3,195
Total Revenues	<u>724,382</u>	<u>724,382</u>	<u>773,327</u>	<u>48,945</u>
Expenditures:				
General Government	105,650	64,660	44,214	20,446
Public Safety	691,901	720,178	718,511	1,667
Public Health	27,282	27,716	27,708	8
Home and Community Services	24,349	24,349	16,573	7,776
Employee Benefits	156,200	169,655	176,782	(7,127)
Capital Outlay	10,000	9,992	30,134	(20,142)
Total Expenditures	<u>1,015,382</u>	<u>1,016,550</u>	<u>1,013,922</u>	<u>2,628</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(291,000)</u>	<u>(292,168)</u>	<u>(240,595)</u>	<u>51,573</u>
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	-	-	(232,301)	(232,301)
Total Other Financing Sources/(Uses)	<u>-</u>	<u>-</u>	<u>(232,301)</u>	<u>(232,301)</u>
Net Change in Fund Balance	<u>(291,000)</u>	<u>(292,168)</u>	<u>(472,896)</u>	<u>(180,728)</u>
Fund Balances - Beginning	1,639,592	1,639,592	1,639,592	-
Fund Balances - Ending	<u>\$ 1,348,592</u>	<u>\$ 1,347,424</u>	<u>\$ 1,166,696</u>	<u>\$ (180,728)</u>

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 23,425	\$ 23,425	\$ 23,425	\$ -
Use of Money and Property	150	150	376	226
Sale of Property and Compensation for a Loss	-	-	1,370	1,370
Total Revenues	23,575	23,575	25,171	1,596
Expenditures:				
General Government	150	150	125	25
Transportation	84,000	87,768	81,576	6,192
Employee Benefits	19,425	19,425	13,753	5,672
Total Expenditures	103,575	107,343	95,454	11,889
Excess/(Deficiency) of Revenues Over Expenditures	(80,000)	(83,768)	(70,283)	13,485
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	-	-	-	-
Total Other Financing Sources/(Uses)	-	-	-	-
Net Change in Fund Balance	(80,000)	(83,768)	(70,283)	13,485
Fund Balances - Beginning	165,774	165,774	165,774	-
Fund Balances - Ending	\$ 85,774	\$ 82,006	\$ 95,491	\$ 13,485

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 419,075	\$ 419,075	\$ 419,075	\$ -
Use of Money and Property	550	550	551	1
State and Federal Aid	17,957	18,289	27,935	9,646
Total Revenues	437,582	437,914	447,561	9,647
Expenditures:				
General Government	500	500	446	54
Transportation	269,875	269,875	192,922	76,953
Employee Benefits	139,250	139,250	89,900	49,350
Capital Outlay	17,957	18,289	47,990	(29,701)
Total Expenditures	427,582	427,914	331,258	96,656
Excess/(Deficiency) of Revenues Over Expenditures	10,000	10,000	116,303	106,303
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	-	-	232,301	232,301
Total Other Financing Sources/(Uses)	-	-	232,301	232,301
Net Change in Fund Balance	10,000	10,000	348,604	338,604
Fund Balances - Beginning	(108,136)	(108,136)	(108,136)	-
Fund Balances - Ending	\$ (98,136)	\$ (98,136)	\$ 240,468	\$ 338,604

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
WATER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Departmental Income	\$ 244,825	\$ 244,825	\$ 262,725	\$ 17,900
Use of Money and Property	-	-	22	22
Miscellaneous	18,740	18,740	18,740	-
Total Revenues	<u>263,565</u>	<u>263,565</u>	<u>281,487</u>	<u>17,922</u>
Expenditures:				
General Government	55	55	40	15
Home and Community Services	200,570	202,454	223,784	(21,330)
Employee Benefits	5,100	5,210	5,851	(641)
Capital Outlay	5,500	3,534	-	3,534
Debt Service	52,340	52,340	28,600	23,740
Total Expenditures	<u>263,565</u>	<u>263,593</u>	<u>258,275</u>	<u>5,318</u>
Excess/(Deficiency) of Revenues Over Expenditures	-	(28)	23,212	23,240
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	-	-	-	-
Total Financing Sources/(Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	(28)	23,212	23,240
Fund Balances - Beginning	45,435	45,435	45,435	-
Fund Balances - Ending	<u>\$ 45,435</u>	<u>\$ 45,407</u>	<u>\$ 68,647</u>	<u>\$ 23,240</u>

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
SEWER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Departmental Income	\$ 283,798	\$ 283,798	\$ 278,686	\$ (5,112)
Use of Money and Property	600	600	492	(108)
Miscellaneous	-	-	594	594
State and Federal Aid	-	-	4,773	4,773
Total Revenues	<u>284,398</u>	<u>284,398</u>	<u>284,545</u>	<u>147</u>
Expenditures:				
General Government	225	225	196	29
Home and Community Services	147,200	148,743	98,674	50,069
Employee Benefits	10,435	10,435	14,798	(4,363)
Capital Outlay	22,000	22,000	34,771	(12,771)
Debt Service	99,538	99,538	99,540	(2)
Total Expenditures	<u>279,398</u>	<u>280,941</u>	<u>247,979</u>	<u>32,962</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>5,000</u>	<u>3,457</u>	<u>36,566</u>	<u>33,109</u>
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	-	-	-	-
Total Other Financing Sources/(Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>5,000</u>	<u>3,457</u>	<u>36,566</u>	<u>33,109</u>
Fund Balances - Beginning	622,255	622,255	622,255	-
Fund Balances - Ending	<u>\$ 627,255</u>	<u>\$ 625,712</u>	<u>\$ 658,821</u>	<u>\$ 33,109</u>

**TOWN OF HIGHLANDS
 COMBINING BALANCE SHEETS
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2013**

	Lighting	Ambulance	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 8,453	\$ 237,293	\$ 245,746
Prepaid	-	8,163	8,163
Total Assets	<u>\$ 8,453</u>	<u>\$ 245,456</u>	<u>\$ 253,909</u>
LIABILITIES			
Accounts Payable	\$ 4,206	\$ 5,468	\$ 9,674
Accrued Expenditures	-	6,215	6,215
Total Liabilities	<u>4,206</u>	<u>11,683</u>	<u>15,889</u>
FUND BALANCES			
Nonspendable	-	8,163	8,163
Restricted	-	86,237	86,237
Assigned	4,247	139,373	143,620
Total Fund Balances	<u>4,247</u>	<u>233,773</u>	<u>238,020</u>
Total Liabilities and Fund Balances	<u>\$ 8,453</u>	<u>\$ 245,456</u>	<u>\$ 253,909</u>

**TOWN OF HIGHLANDS
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Lighting	Ambulance	Total Non-Major Governmental Funds
Revenues:			
Real Property Taxes	\$ 45,000	\$ 200,745	\$ 245,745
Departmental Income	-	133,693	133,693
Use of Money and Property	19	276	295
Miscellaneous	-	14	14
Total Revenues	<u>45,019</u>	<u>334,728</u>	<u>379,747</u>
Expenditures:			
General Government	-	428	428
Public Health	-	208,500	208,500
Transportation	44,229	-	44,229
Employee Benefits	-	98,888	98,888
Total Expenditures	<u>44,229</u>	<u>307,816</u>	<u>352,045</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>790</u>	<u>26,912</u>	<u>27,702</u>
Other Financing Sources:			
Operating Transfers In/(Out)	-	-	-
Change in Fund Balances	790	26,912	27,702
Fund Balances - Beginning	3,457	206,861	210,318
Fund Balances - Ending	<u>\$ 4,247</u>	<u>\$ 233,773</u>	<u>\$ 238,020</u>

**TOWN OF HIGHLANDS
COMBINING BALANCE SHEETS
GENERAL FUNDS
DECEMBER 31, 2013**

	General Fund (A)	General Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,775,005	\$ 960,665	\$ 2,735,670
Accounts Receivable	112,141	11,373	123,514
Due from Other Funds	-	-	-
Due from Other Governments	-	187,738	187,738
Prepaid Expenses	75,149	36,391	111,540
Total Assets	<u>\$ 1,962,295</u>	<u>\$ 1,196,167</u>	<u>\$ 3,158,462</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 76,146	\$ 9,026	\$ 85,172
Accrued Expenditures	58,422	20,445	78,867
Total Liabilities	<u>134,568</u>	<u>29,471</u>	<u>164,039</u>
Fund Balances:			
Nonspendable	75,149	36,391	111,540
Restricted	1,266,572	159,918	1,426,490
Assigned	235,000	290,000	525,000
Unassigned	251,006	680,387	931,393
Total Fund Balances	<u>1,827,727</u>	<u>1,166,696</u>	<u>2,994,423</u>
Total Liabilities and Fund Balances	<u>\$ 1,962,295</u>	<u>\$ 1,196,167</u>	<u>\$ 3,158,462</u>

TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund (A)	General Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 2,169,511	\$ 882	\$ 2,170,393
Real Property Tax Items	4,939	-	4,939
Non Property Tax Items	31,838	752,115	783,953
Departmental Income	96,481	2,965	99,446
Intergovernmental Charges	-	3,709	3,709
Use of Money and Property	14,148	1,081	15,229
Licenses and Permits	58,095	-	58,095
Fines and Forfeitures	263,575	-	263,575
Sale of Proprty and Compensation for a Loss	666	9,380	10,046
Miscellaneous	42,096	-	42,096
State and Federal Aid	320,026	3,195	323,221
Total Revenues	3,001,375	773,327	3,774,702
Expenditures:			
General Government	802,482	44,214	846,696
Public Safety	159,809	718,511	878,320
Public Health	-	27,708	27,708
Transportation	173,964	-	173,964
Economic Assistance and Opportunity	14,093	-	14,093
Culture and Recreation	456,587	-	456,587
Home and Community Services	627,489	16,573	644,062
Employee Benefits	585,347	176,782	762,129
Capital Outlay	86,994	30,134	117,128
Total Expenditures	2,906,765	1,013,922	3,920,687
Excess/(Deficiency) of Revenues Over Expenditures	94,610	(240,595)	(145,985)
Other Financing Sources:			
Operating Transfers In/(Out)	-	(232,301)	(232,301)
Change in Fund Balances	94,610	(472,896)	(378,286)
Fund Balances - Beginning	1,733,117	1,639,592	3,372,709
Fund Balances - Ending	\$ 1,827,727	\$ 1,166,696	\$ 2,994,423

**TOWN OF HIGHLANDS
COMBINING BALANCE SHEETS
HIGHWAY FUNDS
DECEMBER 31, 2013**

	Highway Fund (A)	Highway Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ 104,893	\$ 303,897	\$ 408,790
Accounts Receivable	-	7,531	7,531
Prepaid Expenses	2,078	12,351	14,429
Total Assets	\$ 106,971	\$ 323,779	\$ 430,750
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 4,429	\$ 4,458	\$ 8,887
Accrued Expenditures	7,051	6,135	13,186
Due to Other Funds	-	72,718	72,718
Total Liabilities	11,480	83,311	94,791
Fund Balances:			
Nonspendable	2,078	12,351	14,429
Restricted	88,664	150,000	238,664
Assigned	4,749	78,117	82,866
Total Fund Balances	95,491	240,468	335,959
Total Liabilities and Fund Balances	\$ 106,971	\$ 323,779	\$ 430,750

**TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
HIGHWAY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Highway Fund (A)	Highway Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 23,425	\$ 419,075	\$ 442,500
Use of Money and Property	376	551	927
Sale of Property and Compensation for Loss	1,370	-	1,370
State and Federal Aid	-	27,935	27,935
Total Revenues	25,171	447,561	472,732
Expenditures:			
General Government	125	446	571
Transportation	81,576	192,922	274,498
Employee Benefits	13,753	89,900	103,653
Capital Outlay	-	47,990	47,990
Total Expenditures	95,454	331,258	426,712
Excess/(Deficiency) of Revenues Over Expenditures	(70,283)	116,303	46,020
Other Financing Sources:			
Operating Transfers In/(Out)	-	232,301	232,301
Change in Fund Balances	(70,283)	348,604	278,321
Fund Balances - Beginning	165,774	(108,136)	57,638
Fund Balances - Ending	\$ 95,491	\$ 240,468	\$ 335,959

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**TOWN OF HIGHLANDS
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2013**

	Original Date of Issue	Date of Final Maturity	Interest Rate	Outstanding Beginning of Fiscal Year	Issued During Fiscal Year	Paid During Fiscal Year	Outstanding End of Fiscal Year	Amount of Interest Paid During Fiscal Year	Amount of Interest Accrued at 12/31/2013	Due Within the Next Year
<u>SERIAL BONDS</u>										
E.F.C. SRF Bond - Water District #2	05/01/14	11/01/33	Various	\$ -	\$ 1,194,716	\$ -	\$ 1,194,716	\$ -	\$ -	\$ 55,000
E.F.C. Bond - Water District #2	09/01/00	07/01/21	0.00%	278,300	-	28,600	249,700	-	-	29,200
Sewer System Refunding Serial Bond	03/15/96	11/15/15	5.33%	270,000	-	85,000	185,000	14,540	1,249	90,000
TOTAL SERIAL BONDS				\$ 548,300	\$ 1,194,716	\$ 113,600	\$ 1,629,416	\$ 14,540	\$ 1,249	\$ 174,200