

**VILLAGE OF LANCASTER,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information and Supplementary Information
for the Year Ended May 31, 2016 and
Independent Auditors' Reports*

VILLAGE OF LANCASTER, NEW YORK
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Year Ended May 31, 2016

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Village Trustees
Village of Lancaster, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Lancaster, New York (the "Village"), as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village, as of May 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended May 31, 2016 the Village implemented Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village’s basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, is 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 Supplementary Information, as listed in the table of contents, is 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 September 23, 2016 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

 Derek E. Malin LLP

September 23, 2016

VILLAGE OF LANCASTER, NEW YORK
Management's Discussion and Analysis
Year Ended May 31, 2016

As management of the Village of Lancaster, New York (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended May 31, 2016. This document should be read in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative. For comparative purposes, certain items from the prior year have been reclassified to conform with the current year presentation.

Financial Highlights

- The assets and deferred outflows of resources of the primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11,062,314 (*net position*). This consists of \$7,838,613 net investment in capital assets, \$352,287 restricted for specific purposes, and an unrestricted portion of \$2,871,414 for amounts available to meet the Village's ongoing obligations to its citizens and creditors.
- The Village's primary government net position increased by \$1,007,910 during the year ended May 31, 2016.
- At the end of the current fiscal year, the Village's governmental funds reported combined ending fund balance of \$2,302,539, a decrease of \$523,708 in comparison with the prior year's fund balance of \$2,826,247. Excluding the Capital Projects Fund unassigned fund balance deficit of \$1,067,049, the Village had unrestricted fund balances of \$2,972,950; the remainder is subject to external restrictions (restricted) or is not available for spending (nonspendable).
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$2,347,293, or approximately 34.2 percent of General Fund expenditures and transfers out.
- The Village's total bond indebtedness decreased by \$765,000 as a result of scheduled principal payments.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Village's assets, liabilities and deferred outflows/inflows of resources, with the differences reported as *net position*. Over time, increases or

decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and depreciation expense on capital assets).

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

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and fiduciary funds.

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

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

The Village maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Water Fund, Sewer Fund, Capital Projects Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other two funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Supplementary Information sections of this report.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Village's own programs. The

Village is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Village maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 19 of this report.

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. The notes to the financial statements can be found on pages 20-47 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village’s progress in funding its obligation to provide post-employment benefits to its employees, the Village’s net pension liability, and the Village’s budgetary comparison schedules for the General Fund, Water Fund, and Sewer Fund. Required supplementary information and a related note to the required supplementary information can be found on pages 48-54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 55-56.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the Village, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,062,314 at the close of the most recent fiscal year, as compared to \$10,054,404 (as restated) at the close of the fiscal year ended May 31, 2015.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position

| | Governmental Activities | |
|----------------------------------|-------------------------|-----------------------|
| | May 31, | |
| | 2016 | 2015 (as restated) |
| Current assets | \$ 4,617,960 | \$ 4,090,921 |
| Capital assets | 13,989,719 | 13,070,917 |
| Total assets | <u>18,607,679</u> | <u>17,161,838</u> |
| Deferred outflows or resources | <u>984,917</u> | <u>103,512</u> |
| Current liabilities | 2,062,977 | 991,000 |
| Noncurrent liabilities | 6,311,420 | 6,219,946 |
| Total liabilities | <u>8,374,397</u> | <u>7,210,946</u> |
| Deferred inflows of resources | <u>155,885</u> | <u>-</u> |
| Net position: | | |
| Net investment in capital assets | 7,838,613 | 7,115,422 |
| Restricted | 352,287 | 456,253 |
| Unrestricted | <u>2,871,414</u> | <u>2,482,729</u> |
| Total net position | <u>\$ 11,062,314</u> | <u>\$ 10,054,404</u> |

The largest portion of the Village's net position, \$7,838,613, reflects its investment in capital assets (e.g. land, buildings, improvements and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position, \$352,287, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,871,414 is unrestricted net position that may be used to meet the Village's ongoing operations.

Table 2, as presented below, shows the changes in net position for the years ended May 31, 2016 and May 31, 2015.

Table 2—Condensed Statements of Changes in Net Position

| | <u>Governmental Activities</u> | |
|------------------------------------|--------------------------------|-------------------------------------|
| | <u>Year Ended May 31,</u> | |
| | <u>2016</u> | <u>2015</u> <u>(as restated)</u> |
| Program revenues: | | |
| Charges for services | \$ 1,049,906 | \$ 1,127,588 |
| Operating grants and contributions | 322,769 | 234,229 |
| Capital grants and contributions | 359,110 | 216,977 |
| General revenues | <u>6,326,518</u> | <u>6,293,668</u> |
| Total revenues | <u>8,058,303</u> | <u>7,872,462</u> |
| Program expenses | <u>7,050,393</u> | <u>7,171,326</u> |
| Change in net position | 1,007,910 | 701,136 |
| Net position—beginning | 10,054,404 | 9,488,453 |
| Restatement | - | (135,185) |
| Net position—ending | <u>\$ 11,062,314</u> | <u>\$ 10,054,404</u> |

Overall revenues increased by 2.4 percent from the prior year, primarily due to increases in State and Federal Emergency Disaster Assistance received during the year ended May 31, 2016. Total expenses decreased by 1.7 percent from the year ended May 31, 2015, primarily due to decreases in culture and recreation and home and community services costs related to Village celebration and building inspector contractual costs during the year ended May 31, 2015.

A summary of sources of revenues for the years ended May 31, 2016 and May 31, 2015 is presented below in Table 3.

Table 3—Summary of Sources of Revenues

| | Year Ended May 31, | | Increase/(Decrease) | |
|--|---------------------|---------------------|---------------------|-------------|
| | 2016 | 2015 | Dollars | Percent (%) |
| Charges for services | \$ 1,049,906 | \$ 1,127,588 | \$ (77,682) | (6.9) |
| Operating grants and contributions | 322,769 | 234,229 | 88,540 | 37.8 |
| Capital grants and contributions | 359,110 | 216,977 | 142,133 | 65.5 |
| Real property taxes and tax items | 4,798,830 | 4,744,538 | 54,292 | 1.1 |
| Other non-property taxes | 1,196,255 | 1,230,541 | (34,286) | (2.8) |
| Use of money and property | 1,522 | 1,904 | (382) | (20.1) |
| Sale of property and compensation for loss | 23,973 | 40,383 | (16,410) | (40.6) |
| Miscellaneous | 63,966 | 35,123 | 28,843 | 82.1 |
| State aid | 241,972 | 241,179 | 793 | 0.3 |
| Total revenues | <u>\$ 8,058,303</u> | <u>\$ 7,872,462</u> | <u>\$ 185,841</u> | 2.4 |

The most significant sources of revenues for the year ended May 31, 2016 were real property taxes and tax items of \$4,798,830, or 59.6 percent of total revenues, other non-property taxes of \$1,196,255, or 14.8 percent of total revenues, and charges for services of \$1,049,906, or 13.0 percent of total revenues. Similarly, for the year ended May 31, 2015, the largest source of revenues were real property taxes and tax items of \$4,744,538, or 60.3 percent of total revenues, other non-property taxes of \$1,230,541, or 15.6 percent of total revenues, and charges for services of \$1,127,588, or 14.3 percent of total revenues.

A summary of program expenses for the years ended May 31, 2016 and May 31, 2015 is presented below in Table 4.

Table 4—Summary of Program Expenses

| | Year Ended May 31, | | Increase/(Decrease) | |
|-----------------------------|---------------------|---------------------|---------------------|-------------|
| | 2016 | 2015 | Dollars | Percent (%) |
| General government support | \$ 1,474,791 | \$ 1,431,254 | \$ 43,537 | 3.0 |
| Public safety | 1,703,287 | 1,795,904 | (92,617) | (5.2) |
| Transportation | 1,328,857 | 1,313,238 | 15,619 | 1.2 |
| Culture and recreation | 210,751 | 242,636 | (31,885) | (13.1) |
| Home and community services | 2,133,637 | 2,153,208 | (19,571) | (0.9) |
| Interest and other expenses | 199,070 | 235,086 | (36,016) | (15.3) |
| Total program expenses | <u>\$ 7,050,393</u> | <u>\$ 7,171,326</u> | <u>\$ (120,933)</u> | (1.7) |

The most significant expense items for the year ended May 31, 2016 were home and community services of \$2,133,637, or 30.3 percent of total expenses, public safety of \$1,703,287, or 24.2 percent of total expenses, and general government support of \$1,474,791, or 20.9 percent of total expenses. Similarly, for the year ended May 31, 2015, the most significant expense items were home and community services of \$2,153,208, or 30.0 percent of total expenses, public safety of \$1,795,904, or 25.0 percent of total expenses, and general government support of \$1,431,254, or 20.0 percent of total expenses.

Financial Analysis of Governmental Funds

Governmental funds—The focus of the Village’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the Village itself, or a group of individuals that has been delegated authority to assign resources for particular purposes by the Board of Trustees.

At May 31, 2016, the Village’s governmental funds reported combined ending fund balance of \$2,302,539, a decrease of \$523,708 from the prior year. Excluding the effects of a \$1,067,049 fund balance deficit in the Capital Projects Fund, approximately 69.7 percent (\$2,347,293) of the combined ending fund balances constitutes *unassigned fund balance* which is available for spending at the Village’s discretion. The remainder of fund balance is *nonspendable, restricted, or assigned*, to indicate that it is: (1) not in spendable form, (\$44,351), (2) restricted for particular purposes, (\$352,287) or (3) assigned for particular purposes, (\$625,657).

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,347,293, while total fund balance increased to \$2,544,242. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 34.2 percent of total General Fund expenditures and transfers out, while total fund balance represents 37.1 percent of that same amount.

The total fund balance of the Village’s General Fund increased by \$196,958 during the current fiscal year. During the annual budget process, the Village anticipated utilizing \$80,200 of fund balance (this included funds appropriated from fund balance (\$70,000) and the re-appropriation of prior year encumbrances (\$10,200)). As a result of spending less than anticipated and receiving revenues in excess of budget, the Village’s General Fund fund balance ended \$277,158 higher than anticipated with the original budget.

The Village’s Water Fund ending fund balance was \$79,239. Approximately 98.5 percent, \$78,051, of this amount is assigned for specific (Water Fund) use. During the year ended May 31, 2016, the Water Fund fund balance decreased \$29,772, as a result of transfers out to the Debt Service Fund for the payment of outstanding principal and related interest.

The Village’s Sewer Fund ending fund balance was \$419,420. Approximately 71.2 percent, \$298,648, of this amount is assigned for specific (Sewer Fund) use. During the year ended May 31, 2016, the Sewer Fund fund balance decreased \$35,229, primarily due to increased expenditures related to costs for the Brady Avenue Sanitary Sewer Replacement project.

The Village’s Debt Service Fund ending fund balance was \$321,212. During the year ended May 31, 2016, the Debt Service Fund fund balance decreased \$103,966 primarily due to transfers out to the General, Sewer and Capital Projects funds.

The Village’s Capital Projects Fund ending fund balance was (\$1,067,049). During the year ended May 31, 2016, the Capital Projects Fund fund balance decreased \$551,699 primarily due to ongoing capital outlay expenditures not yet funded by long-term financing.

General Fund Budgetary Highlights

The Village’s General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward (increased) for prior year’s encumbrances since the funds were allocated under the previous year’s budget, and the Village has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues or appropriated fund balance. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget.

A summary of the General Fund results of operations for the year ended May 31, 2016 is presented below in Table 5.

Table 5—Summary of General Fund Results of Operations

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|---------------------|-------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| Revenues and other financing sources | \$ 6,433,575 | \$ 6,931,680 | \$ 7,059,037 | \$ 127,357 |
| Expenditures and other financing uses | <u>6,513,775</u> | <u>7,597,906</u> | <u>6,862,079</u> | <u>735,827</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>\$ (80,200)</u> | <u>\$ (666,226)</u> | <u>\$ 196,958</u> | <u>\$ 863,184</u> |

Original budget compared to final budget—At the close of the fiscal year, the overall appropriations increased by \$1,084,131. This increase was largely due to supplemental appropriations associated with interfund transfers related to capital projects. Additionally, the Village Board approved budget adjustments totaling \$586,026 to provide funding for the West Main Street Extension and Demolition Project (\$242,810) and payment of principal on bond anticipation notes relating to equipment (\$343,216). Such costs were not anticipated during the adoption of the original budget. The increase in appropriation was supported by increases in appropriated fund balance of \$586,026 and estimated revenues of \$498,105.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yields favorable variances. General Fund total revenues and transfers in were \$127,357 higher than corresponding final budgeted revenues. General Fund total expenditures and transfers out were \$735,827 less than corresponding final budget appropriations. Following are the main components of the variance:

- Employee benefit expenditures were \$361,375 less than budgeted, primarily due to lower than anticipated insurance and pension expenditures.
- Home and community service expenditures were \$151,609 less than budgeted, as contracted drainage and street cleaning costs were less than projected amounts.
- General government support expenditures were \$111,715 less than budgeted, largely due to lower than expected unallocated insurance and shared services expenditures.

Capital Asset and Debt Administration

Capital assets—The Village’s investment in capital assets for its governmental activities as of May 31, 2016, amounted to \$13,989,719 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and building improvements, machinery and equipment and infrastructure.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the Village’s capital asset policy.

Capital assets, net of depreciation for the governmental activities at the years ended May 31, 2016 and May 31, 2015 are presented below in Table 6.

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

| | Governmental Activities | |
|----------------------------|-------------------------|----------------------|
| | May 31, | |
| | 2016 | 2015 |
| Land | \$ 222,717 | \$ 222,717 |
| Buildings and improvements | 1,046,974 | 1,092,753 |
| Machinery and equipment | 2,819,773 | 1,896,597 |
| Infrastructure | 9,900,255 | 9,858,850 |
| Total | <u>\$ 13,989,719</u> | <u>\$ 13,070,917</u> |

Additional information on the Village’s capital assets can be found in Note 5 of this report.

Long-term debt—At May 31, 2016, the Village had total bonded debt outstanding of \$5,065,000, as compared to \$5,830,000 in the prior year. During the year ended May 31, 2016, the Village made scheduled debt payments of \$765,000.

A summary of the Village’s long-term liabilities at May 31, 2016 and May 31, 2015 is presented below in Table 7.

Table 7—Summary of Long-Term Liabilities

| | Governmental Activities | |
|-----------------------|-------------------------|---------------------|
| | May 31, | |
| | 2016 | 2015 |
| Serial bonds | \$ 5,065,000 | \$ 5,830,000 |
| Compensated absences | 168,547 | 151,249 |
| Net pension liability | 1,077,873 | 238,697 |
| Total | <u>\$ 6,311,420</u> | <u>\$ 6,219,946</u> |

Additional information on the Village’s long-term debt can be found in Note 12 to the financial statements.

Economic Factors

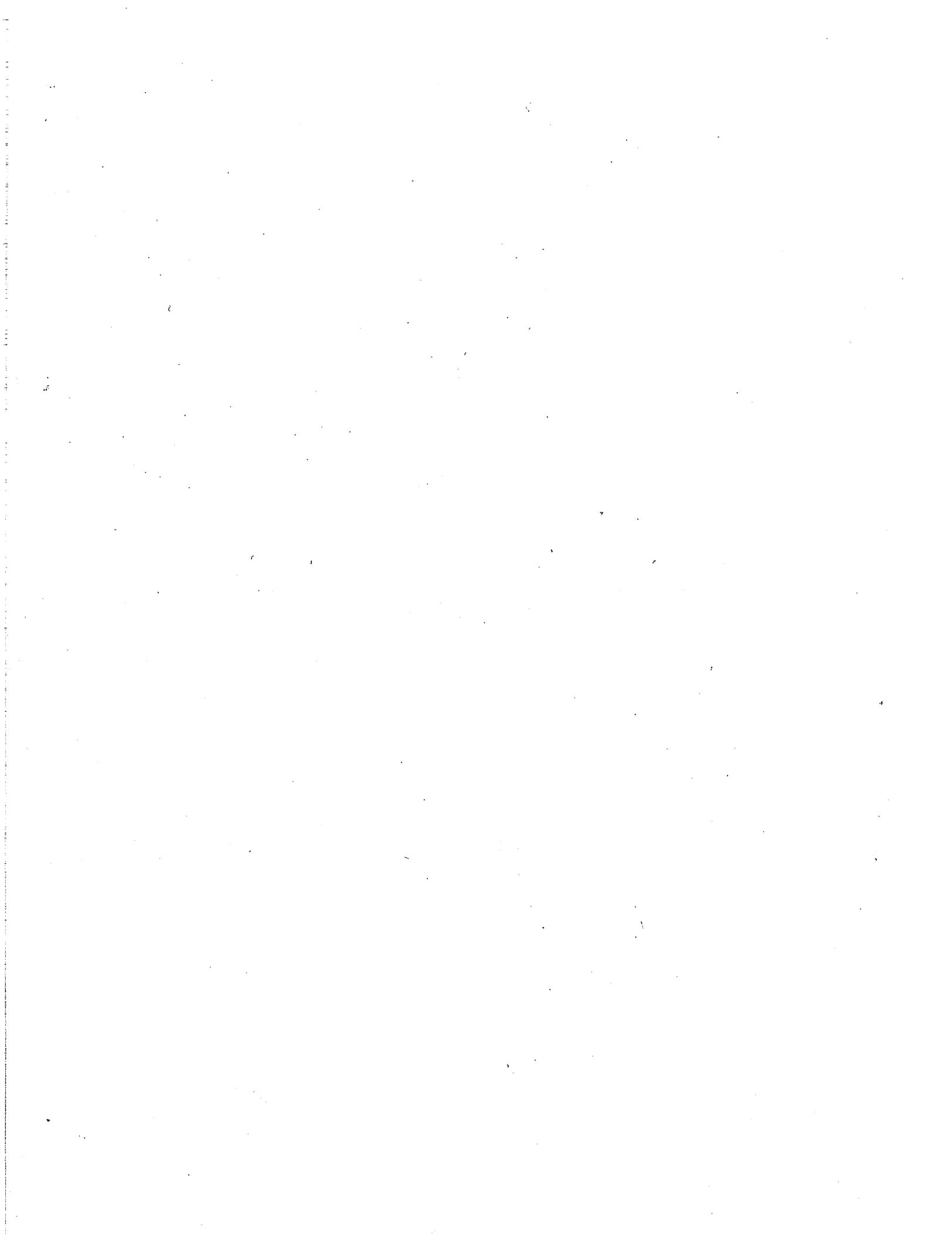
The unemployment rate, not seasonally adjusted, for the Erie County region at May 31, 2016 was 4.3 percent. Compared to New York State's average unemployment rate of 4.2 percent and the national unemployment rate of 4.5 percent. These factors are considered in preparing the Village's budget.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. Questions concerning any of the information in this report, or request for additional financial information should be directed to the Mayor's Office, Village of Lancaster, 5423 Broadway, Lancaster, NY 14086.

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BASIC FINANCIAL STATEMENTS



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VILLAGE OF LANCASTER, NEW YORK
Statement of Net Position
May 31, 2016

| | <u>Primary Governmental Activities</u> |
|---|--|
| ASSETS | |
| Cash and cash equivalents | \$ 2,805,575 |
| Restricted cash and cash equivalents | 745,922 |
| Receivables | 221,913 |
| Intergovernmental receivables | 470,255 |
| Due from Agency Fund | 11,118 |
| Prepaid items | 363,177 |
| Capital assets, not being depreciated | 222,717 |
| Capital assets, net of accumulated depreciation | <u>13,767,002</u> |
| Total assets | <u>18,607,679</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows—relating to pensions | <u>984,917</u> |
| Total deferred outflows of resources | <u>984,917</u> |
| LIABILITIES | |
| Accounts payable | 129,049 |
| Accrued liabilities | 270,564 |
| Bond anticipation notes payable | 1,430,000 |
| Intergovernmental payables | 215,091 |
| Unearned revenue | 18,273 |
| Noncurrent liabilities: | |
| Due within one year | 583,427 |
| Due within more than one year | <u>5,727,993</u> |
| Total liabilities | <u>8,374,397</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows—relating to pension plans | <u>155,885</u> |
| Total deferred inflows of resources | <u>155,885</u> |
| NET POSITION | |
| Net investment in capital assets | 7,838,613 |
| Restricted for: | |
| Repairs | 31,075 |
| Debt service | 321,212 |
| Unrestricted | <u>2,871,414</u> |
| Total net position | <u>\$ 11,062,314</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Statement of Activities
Year Ended May 31, 2016

| <u>Function/Program</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u> |
|-----------------------------------|---------------------|---------------------------------------|---|---|--|
| | | <u>Charges for</u> <u>Services</u> | <u>Operating</u> <u>Grants and</u> <u>Contributions</u> | <u>Capital</u> <u>Grants and</u> <u>Contributions</u> | <u>Primary</u> <u>Governmental</u> <u>Activities</u> |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government support | \$ 1,474,791 | \$ 10,852 | \$ 14,991 | \$ - | \$ (1,448,948) |
| Public safety | 1,703,287 | 64,029 | - | - | (1,639,258) |
| Transportation | 1,328,857 | 7,150 | - | 259,110 | (1,062,597) |
| Culture and recreation | 210,751 | 74,615 | - | - | (136,136) |
| Home and community services | 2,133,637 | 893,260 | 307,778 | 100,000 | (832,599) |
| Interest and other fiscal charges | 199,070 | - | - | - | (199,070) |
| Total primary government | <u>\$ 7,050,393</u> | <u>\$ 1,049,906</u> | <u>\$ 322,769</u> | <u>\$ 359,110</u> | <u>(5,318,608)</u> |
| General revenues: | | | | | |
| | | | | | 4,798,830 |
| | | | | | 1,196,255 |
| | | | | | 1,522 |
| | | | | | 23,973 |
| | | | | | 63,966 |
| | | | | | 241,972 |
| | | | | | <u>6,326,518</u> |
| | | | | | 1,007,910 |
| | | | | | <u>10,054,404</u> |
| | | | | | <u>\$ 11,062,314</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Balance Sheet—Governmental Funds
May 31, 2016

| | <u>General</u> | <u>Special Revenue</u> | | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|------------------------|-------------------|-----------------------------|-------------------------|-------------------------------------|---|
| | | <u>Water</u> | <u>Sewer</u> | | | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 2,427,847 | \$ 40,738 | \$ 336,990 | \$ - | \$ - | \$ - | \$ 2,805,575 |
| Restricted cash and cash equivalents | 49,348 | - | - | 374,282 | 316,817 | 5,475 | 745,922 |
| Receivables | 79,080 | 38,501 | 102,125 | 2,207 | - | - | 221,913 |
| Due from other funds | 37,050 | - | 821 | 62,703 | 4,395 | - | 104,969 |
| Intergovernmental receivables | 451,130 | - | - | 19,125 | - | - | 470,255 |
| Prepaid items | 36,774 | - | 2,102 | - | - | - | 38,876 |
| Total assets | <u>\$ 3,081,229</u> | <u>\$ 79,239</u> | <u>\$ 442,038</u> | <u>\$ 458,317</u> | <u>\$ 321,212</u> | <u>\$ 5,475</u> | <u>\$ 4,387,510</u> |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 49,860 | \$ - | \$ 11,792 | \$ 67,397 | \$ - | \$ - | \$ 129,049 |
| Accrued liabilities | 191,060 | - | 7,647 | - | - | - | 198,707 |
| Due to other funds | 62,703 | - | 3,179 | 27,969 | - | - | 93,851 |
| Intergovernmental payables | 215,091 | - | - | - | - | - | 215,091 |
| Bond anticipation notes payable | - | - | - | 1,430,000 | - | - | 1,430,000 |
| Unearned revenue | 18,273 | - | - | - | - | - | 18,273 |
| Total liabilities | <u>536,987</u> | <u>-</u> | <u>22,618</u> | <u>1,525,366</u> | <u>-</u> | <u>-</u> | <u>2,084,971</u> |
| FUND BALANCES (DEFICIT) | | | | | | | |
| Nonspendable | 36,774 | - | 2,102 | - | - | 5,475 | 44,351 |
| Restricted | 31,075 | - | - | - | 321,212 | - | 352,287 |
| Assigned | 129,100 | 79,239 | 417,318 | - | - | - | 625,657 |
| Unassigned | 2,347,293 | - | - | (1,067,049) | - | - | 1,280,244 |
| Total fund balances (deficit) | <u>2,544,242</u> | <u>79,239</u> | <u>419,420</u> | <u>(1,067,049)</u> | <u>321,212</u> | <u>5,475</u> | <u>2,302,539</u> |
| Total liabilities and fund balances (deficit) | <u>\$ 3,081,229</u> | <u>\$ 79,239</u> | <u>\$ 442,038</u> | <u>\$ 458,317</u> | <u>\$ 321,212</u> | <u>\$ 5,475</u> | <u>\$ 4,387,510</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
Year Ended May 31, 2016

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

| | | |
|--|--------------------|----------------------|
| Total fund balances (deficit)—governmental funds (page 15) | | \$ 2,302,539 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$30,679,835 and the accumulated depreciation is \$16,690,116. | | 13,989,719 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements: | | |
| Deferred outflows related to employer contributions | \$ 45,048 | |
| Deferred outflows related to assumptions, experience and investment earnings | 939,869 | |
| Deferred inflows of resources related to pension plan | <u>(155,885)</u> | 829,032 |
| Noncurrent prepaid items not recorded in the funds. | | 324,301 |
| Net accrued interest expense for serial bonds and bond anticipation notes is not reported in the funds. | | (71,857) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are: | | |
| Serial bonds | \$ (5,065,000) | |
| Compensated absences | (168,547) | |
| Net pension liability | <u>(1,077,873)</u> | <u>(6,311,420)</u> |
| Total net position—governmental activities | | <u>\$ 11,062,314</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Governmental Funds
Year Ended May 31, 2016

| | General | Special Revenue | | Capital Projects | Debt Service | Total Nonmajor Funds | Total Governmental Funds |
|--|---------------------|------------------|-------------------|-----------------------|-------------------|----------------------------|--------------------------------|
| | | Water | Sewer | | | | |
| REVENUES | | | | | | | |
| Real property taxes and tax items | \$ 4,798,830 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,798,830 |
| Non-property tax items | 1,196,255 | - | - | - | - | - | 1,196,255 |
| Departmental income | 85,656 | 124,946 | 765,914 | - | - | - | 976,516 |
| Intergovernmental charges | 6,677 | - | - | 5,207 | - | - | 11,884 |
| Use of money and property | 1,071 | 17 | 76 | 5 | 353 | - | 1,522 |
| Licenses and permits | 1,929 | - | - | - | - | - | 1,929 |
| Fines and forfeitures | 59,577 | - | - | - | - | - | 59,577 |
| Sale of property and compensation for loss | 23,973 | - | - | - | - | - | 23,973 |
| Miscellaneous | 52,251 | - | 156 | 11,559 | - | - | 63,966 |
| State aid | 601,666 | - | - | 42,061 | - | 100,000 | 743,727 |
| Federal aid | 180,124 | - | - | - | - | - | 180,124 |
| Total revenues | <u>7,008,009</u> | <u>124,963</u> | <u>766,146</u> | <u>58,832</u> | <u>353</u> | <u>100,000</u> | <u>8,058,303</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government support | 1,061,050 | - | 4,200 | - | - | - | 1,065,250 |
| Public safety | 1,246,240 | - | - | - | - | - | 1,246,240 |
| Transportation | 1,358,558 | - | - | - | - | - | 1,358,558 |
| Culture and recreation | 147,572 | - | - | - | - | - | 147,572 |
| Home and community services | 549,681 | - | 316,427 | - | - | 165,581 | 1,031,689 |
| Employee benefits | 1,341,775 | - | 88,960 | - | - | - | 1,430,735 |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | 765,000 | - | 765,000 |
| Interest and other fiscal charges | - | - | - | 5,529 | 187,466 | - | 192,995 |
| Capital outlay | - | - | - | 1,343,972 | - | - | 1,343,972 |
| Total expenditures | <u>5,704,876</u> | <u>-</u> | <u>409,587</u> | <u>1,349,501</u> | <u>952,466</u> | <u>165,581</u> | <u>8,582,011</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,303,133</u> | <u>124,963</u> | <u>356,559</u> | <u>(1,290,669)</u> | <u>(952,113)</u> | <u>(65,581)</u> | <u>(523,708)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | 51,028 | - | 53,020 | 738,970 | 952,466 | 65,581 | 1,861,065 |
| Transfers out | <u>(1,157,203)</u> | <u>(154,735)</u> | <u>(444,808)</u> | <u>-</u> | <u>(104,319)</u> | <u>-</u> | <u>(1,861,065)</u> |
| Total other financing sources (uses) | <u>(1,106,175)</u> | <u>(154,735)</u> | <u>(391,788)</u> | <u>738,970</u> | <u>848,147</u> | <u>65,581</u> | <u>-</u> |
| Net change in fund balances (deficit) | 196,958 | (29,772) | (35,229) | (551,699) | (103,966) | - | (523,708) |
| Fund balances (deficit)—beginning | 2,347,284 | 109,011 | 454,649 | (515,350) | 425,178 | 5,475 | 2,826,247 |
| Fund balances (deficit)—ending | <u>\$ 2,544,242</u> | <u>\$ 79,239</u> | <u>\$ 419,420</u> | <u>\$ (1,067,049)</u> | <u>\$ 321,212</u> | <u>\$ 5,475</u> | <u>\$ 2,302,539</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended May 31, 2016

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net change in fund balances (deficit)—total governmental funds (page 17) \$ (523,708)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|------------------------------|--------------------|-----------|
| Capital asset additions, net | \$ 2,745,658 | |
| Depreciation expense | <u>(1,587,315)</u> | 1,158,343 |

Loss on disposal of capital assets is recorded in the statement of activities but not in the statement for governmental funds. (239,541)

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

| | | |
|---|------------------|-----------|
| Village pension contributions | \$ 45,048 | |
| Cost of benefits earned net of employee contributions | <u>(158,704)</u> | (113,656) |

Noncurrent prepaid items that are not reported in the funds. (15,155)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. (6,075)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses 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). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

| | | |
|-------------------------------------|-----------------|----------------|
| Principal repayment of serial bonds | \$ 765,000 | |
| Change in compensated absences | <u>(17,298)</u> | <u>747,702</u> |

Change in net position of governmental activities \$ 1,007,910

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

VILLAGE OF LANCASTER, NEW YORK
Statement of Net Position—Agency Fund
May 31, 2016

| | <u>Agency Fund</u> |
|-------------------------------|------------------------|
| ASSETS | |
| Cash | \$ 7,960 |
| Intergovernmental receivables | 8,025 |
| LOSAP assets | <u>1,392,796</u> |
| Total assets | <u>\$ 1,408,781</u> |
| LIABILITIES | |
| Agency liabilities | \$ 4,867 |
| Due to other funds | 11,118 |
| Amounts held for LOSAP | <u>1,392,796</u> |
| Total liabilities | <u>\$ 1,408,781</u> |

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

VILLAGE OF LANCASTER, NEW YORK
Notes to the Financial Statements
Year Ended May 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Village. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Village reports no business-type activities or component units.

Reporting Entity

The Village, which was established in 1849, is governed by its Charter, Village law, other general laws of the State of New York and various local laws. The Village Board of Trustees is the legislative body responsible for overall operations. The Mayor serves as Chief Executive Officer and the Village Clerk-Treasurer serves as Chief Fiscal Officer.

The following basic services are provided: fire protection, highway maintenance, sewer service, street lighting, parks, justice court services and general administration. The Police Department ceased on March 31, 2003 when the Village's police functions were transferred from the Village to the Town of Lancaster. The Village's water services were transferred from the Village to the Erie County Water Authority ("ECWA") on December 31, 2002. These basic services are financed by various taxes, state and federal aid and departmental revenue (which is primarily comprised of service fees and various types of program-related).

Basis of Presentation—Government-wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments and charges between the Village's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation—Fund Financial Statements

The fund financial statements provide information about the Village's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each reported as a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the principal operating fund of the Village and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is real property taxes.
- *Water Fund*—Since December 31, 2002, water services have been provided to the Village by the ECWA. The Water Fund is used to record the billing and collection of water surcharges (via ECWA) used to pay debt service costs on remaining Village Water Fund debt that was outstanding at the time of the transfer. The Village does not anticipate future debt service costs to exceed available fund balance at May 31, 2016, accordingly, the associated water surcharges will no longer be imposed.
- *Sewer Fund*—The Sewer Fund is used to record the operation and maintenance of sewer services provided by the Village.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.
- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The Village reports the following nonmajor governmental funds:

- *Miscellaneous Special Revenue Fund*—The Miscellaneous Special Revenue Fund is used to account for specific purposes that were created to benefit the Village, generally funded through gifts and donations.
- *Special Grant Fund*—The Special Grant Fund is used to account for certain grant monies, including community development type activities, maintained by the Village.

Additionally, the Village reports the following fund type:

- *Fiduciary Fund*—These funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Agency Fund*. The Agency Fund is custodial in nature and does not involve measurement of results of operations. The Agency Fund accounts, such as payroll withholdings, are reported as liabilities.

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

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, other post-employment benefits, and claims and judgments, are recorded only when a payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The Village’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The Village had no investments at May 31, 2016; however, when the Village does have investments they are recorded at fair value based on quoted market value.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support restricted fund balance and unspent proceeds from debt issuances.

Prepaid items—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased. The Village reports one noncurrent prepaid item (other postemployment benefits obligation) which is not reported in the funds. Further information regarding this noncurrent prepaid can be found in Note 9 to the financial statements.

Capital Assets—Capital assets, which include property, buildings and improvements, machinery and equipment and infrastructure assets (e.g. roads, bridges, drainage systems and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at estimated fair market value at the date of donation.

Land and construction in progress are not depreciated. The other capital assets of the Village are depreciated using the straight line method over the following estimated useful lives:

| Class of assets | Years |
|---------------------------------|-------|
| Buildings | 50 |
| Building improvements | 20 |
| Machinery and equipment: | |
| Office and heavy equipment | 10 |
| Vehicles and computer equipment | 5 |
| Infrastructure: | |
| Sewer and water | 30 |
| Roads and street lighting | 10 |

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund other governmental funds are included in the appropriate functional category (i.e. the purchase of a new highway vehicle included as part of *expenditures—transportation*). At times, the amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (i.e. furnishings below the capitalization threshold).

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At May 31, 2016, the Village has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Village’s proportion of the collective net pension liability, the difference during the measurement period between the Village’s contribution and its proportionate share of the total contribution to the pension system not included in the pension expense, and any contribution to the pension system made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At May 31, 2016, the Village has one item that qualifies for reporting in this category. The item represents the effect of the net change in the Village’s proportion of the collective net pension liability and the difference during the measurement periods between the Village’s contributions and its proportionate share of total contributions to the pension systems not included in pension expense, and is reported on the government-wide statements.

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

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

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

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

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

Revenues and Expenses/Expenditures

Program Revenues—Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes—Village real property taxes are levied annually on June 1. The Village tax rate is based on the amount per \$1,000 assessed valuation. Delinquent accounts of sewer billings are transferred to the Village real property tax roll annually for re-levy and collection. Taxes may be paid to the Village between June 1 and October 31.

Outstanding taxes as of November 1 are forwarded to Erie County for re-levy and collection. The County pays the Village the amount of its outstanding taxes prior to the end of the Village's fiscal year.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At May 31, 2016, the Village reported \$18,273 of unearned revenues within the General Fund. The Village received sponsorships in advance but has not performed the associated services and therefore recognizes a liability. In addition, the Village received grant funds in advance but has not met all of the eligibility requirements related to the grant funds and therefore recognizes a liability.

Compensated Absences—Most Village employees are granted vacation and sick leave and earn compensatory absences in varying amounts. Vacations and compensatory absences must be used by the end of the fiscal year in which they are earned. Employees may accumulate sick leave, but they are not entitled to receive payment for unused sick leave in the event of termination or upon retirement.

Payment of compensated absences recorded in the government-wide financial statements is dependent on many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payment of compensated absences when such payments become due.

Pensions—The Village is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

Service Awards—The Village has adopted a Length of Service Award Program for firefighters that serve on a volunteer basis. The program is administered by an outside agency, with the Village as trustee. More information is included in Note 8.

Other Post-Employment Benefits—In addition to providing pension benefits, the Village provides health insurance coverage and survivor benefits for retired employees and their survivors as discussed in Note 9.

Other

Estimates—The preparation of the financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement—During the year ended May 31, 2016, the Village implemented GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 improve accounting and financial reporting by governments for pensions.

Future Impacts of Accounting Pronouncements—The Village has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 72, *Fair Value Measurement and Application*; No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*; and No. 79, *Certain External Investment Pools and Pool Participants*, effective for the fiscal year ending May 31, 2017; No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending May 31, 2018; and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the fiscal year ending May 31, 2019. The Village is, therefore, unable to disclose the impact that adopting GASB Statements No. 72, 73, 74, 75, 76, 77, 78, 79, 80, 81 and 82 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets—Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- Prior to March 1, each department head submits to the Budget Officer, the Mayor, their departmental estimates of revenues and expenditures for the ensuing fiscal year.
- The Mayor reviews the departmental estimates and formulates the proposed budget. The tentative budget is filed with the Village Clerk-Treasurer and submitted to the Village Board of Trustees on or before March 31 for the fiscal year commencing the following June 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
- After public hearings are conducted to obtain taxpayer comments, which should be no later than April 30, the Village Board of Trustees adopts the budget through the passage of a resolution.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types. Budgetary control over individual capital projects is provided by Village Board of Trustees approval of bond authorizations and provisions of bond indebtedness.
- Budgets for the General Fund, the Water Fund and the Sewer Fund are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Village Board of Trustees. The Debt Service Fund appropriations are not budgeted within the Debt Service Fund. Instead the debt service appropriations are budgeted under the applicable governmental funds: the General Fund, the Water Fund and the Sewer Fund. Budgets for the Capital Project Fund

are made on a project basis, spanning more than one fiscal year end. All unencumbered budget appropriations, except project budgets, lapse at year end.

- During the fiscal year, the Village Board of Trustees can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for object level budgetary control. All modifications to the budget must be approved by the Village Board of Trustees. Revisions to the budget were made throughout the year.

Deficit Fund Balances—At May 31, 2016, the Capital Projects Fund, a major fund, had a deficit fund balance of \$1,067,049. The primary reason for the deficit in this case is that the Village issued bond anticipation notes (“BANs”) which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet. The deficit is anticipated to be remedied through proceeds from future debt issuances and transfers from operating funds.

2. RESTATEMENT OF NET POSITION

For the fiscal year ended May 31, 2016, the Village implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and No. 71 resulted in the reporting of deferred outflows/inflows of resources and a liability related to the Village’s participation in the New York State Employees’ Retirement System.

The Village’s governmental activities net position as of May 31, 2015 has been restated as follows:

| | |
|---|----------------------|
| Net position—May 31, 2015, as previously stated | \$ 10,189,589 |
| GASB Statements No. 68 and No. 71 implementation: | |
| Beginning system liability—Employees’ Retirement System | (238,697) |
| Beginning deferred outflows of resources for: | |
| Difference between expected and actual experience | 7,641 |
| Net differences between projected and actual investment earnings on pension plan investments | 41,459 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 10,043 |
| Employer contributions subsequent to the measurement date | <u>44,369</u> |
| Net position—May 31, 2015, as restated | <u>\$ 10,054,404</u> |

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Village’s investment policies are governed by State statutes. In addition, the Village has its own written investment policy. Village monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Clerk-Treasurer 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 deposit accounts, time deposits and certificates of deposit at 100 percent of all deposits not covered by Federal deposit insurance. The Village has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash and cash equivalents at May 31, 2016, are as follows:

| | Governmental Funds | Fiduciary Fund | Total |
|-------------------------------|-----------------------|-------------------|---------------------|
| Petty cash (uncollateralized) | \$ 400 | \$ - | \$ 400 |
| Deposits | 2,805,175 | 7,960 | 2,813,135 |
| Restricted cash | 745,922 | - | 745,922 |
| Total | <u>\$ 3,551,497</u> | <u>\$ 7,960</u> | <u>\$ 3,559,457</u> |

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at May 31, 2016 as follows:

| | Bank Balance | Carrying Amount |
|---|---------------------|---------------------|
| FDIC insured | \$ 500,000 | \$ 500,000 |
| Uninsured: | | |
| Collateral held by pledging bank's agent in the Village's name | <u>3,117,325</u> | <u>3,059,057</u> |
| Total | <u>\$ 3,617,325</u> | <u>\$ 3,559,057</u> |

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of May 31, 2016, the Village's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the Village's name.

Restricted Cash and Cash Equivalents—The Village reports restricted cash, totaling \$745,922. These funds are set aside for future disbursements associated with unearned revenue, payments toward repairs, approved capital project spending, and debt service payments.

Investments—The Village had no investments at May 31, 2016.

Interest Rate Risk—The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are general limited to 180 days or less.

4. RECEIVABLES

Major receivables accrued by the Village at May 31, 2016 consisted of the following:

Receivables—Represents amounts due from various sources. Receivables at May 31, 2016 are as follows:

| | | | |
|--------------------------|----|---------------|-------------------|
| General Fund: | | | |
| Franchise fees | \$ | 56,375 | |
| Property maintenance tax | | 1,800 | |
| Gross receipts tax | | <u>20,905</u> | \$ 79,080 |
| Water Fund: | | | |
| Water rents | | | 38,501 |
| Sewer Fund: | | | |
| Sewer rents | | | 102,125 |
| Capital Projects Fund: | | | |
| West Main Extension | | | <u>2,207</u> |
| Total governmental funds | | | <u>\$ 221,913</u> |

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, Erie County or other local governments. Intergovernmental receivables at May 31, 2016 are:

| | | | |
|--------------------------|----|----------------|-------------------|
| General Fund: | | | |
| Due from County of Erie | \$ | 216,623 | |
| Due from New York State | | <u>234,507</u> | \$ 451,130 |
| Capital Projects Fund | | | |
| Due from New York State | | | <u>19,125</u> |
| Total governmental funds | | | <u>\$ 470,255</u> |

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended May 31, 2016 was as follows:

| | Balance 6/1/2015 | Increases | Decreases | Balance 5/31/2016 |
|--|----------------------|---------------------|---------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 222,717 | \$ - | \$ - | \$ 222,717 |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 2,938,677 | 14,417 | - | 2,953,094 |
| Machinery and equipment | 6,118,651 | 1,492,533 | (239,541) | 7,371,643 |
| Infrastructure | 18,893,673 | 1,238,708 | - | 20,132,381 |
| Total capital assets being depreciated | <u>27,951,001</u> | <u>2,745,658</u> | <u>(239,541)</u> | <u>30,457,118</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | (1,845,924) | (60,196) | - | (1,906,120) |
| Machinery and equipment | (4,222,054) | (329,816) | - | (4,551,870) |
| Infrastructure | (9,034,823) | (1,197,303) | - | (10,232,126) |
| Total accumulated depreciation | <u>(15,102,801)</u> | <u>(1,587,315)</u> | <u>-</u> | <u>(16,690,116)</u> |
| Total capital assets, being depreciated, net | <u>12,848,200</u> | <u>1,158,343</u> | <u>(239,541)</u> | <u>13,767,002</u> |
| Total capital assets, net | <u>\$ 13,070,917</u> | <u>\$ 1,158,343</u> | <u>\$ (239,541)</u> | <u>\$ 13,989,719</u> |

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

| | |
|-----------------------------|---------------------|
| Governmental activities: | |
| General government support | \$ 31,746 |
| Public safety | 428,575 |
| Transportation | 269,844 |
| Culture and recreation | 15,873 |
| Home and community services | 841,277 |
| Total | <u>\$ 1,587,315</u> |

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at May 31, 2016 were as follows:

| | General Fund | Sewer Fund | Total Governmental Funds |
|------------------------------|-------------------|-----------------|--------------------------------|
| Salary and employee benefits | \$ 125,089 | \$ 7,647 | \$ 132,736 |
| Judgment and claims | 65,971 | - | 65,971 |
| Total | <u>\$ 191,060</u> | <u>\$ 7,647</u> | <u>\$ 198,707</u> |

7. PENSION PLANS

Plan Description and Benefits Provided

Employees' Retirement System ("ERS")—The Village participates in the New York State and local ERS. This is a cost-sharing multiple-employer retirement system. The ERS provides retirement benefits as well as death and disability benefits. The net position of the ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the ERS. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the ERS. The ERS benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Village also participates in the Public Employees' Group Life Insurance Plan ("GLIP"), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regards to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010, who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—The net pension liability was measured as of March 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total net pension liabilities to the measurement date. The Village's proportion of the net pension liability was based on projections of the Village's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the Village.

| | ERS |
|---|----------------|
| Measurement date | March 31, 2016 |
| Net pension liability | \$ 1,077,873 |
| Village's portion of the Plan's total net pension liability | 0.0067156% |

For the year ended May 31, 2016, the Village recognized pension expenses of \$380,547 for ERS. At May 31, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown on the following page.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| | ERS | ERS |
| Differences between expected and actual experiences | \$ 5,447 | \$ 127,764 |
| Changes of assumptions | 287,436 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 639,454 | - |
| Changes in proportion and differences between Village contributions and proportionate share of contributions | 7,532 | 28,121 |
| Village contributions subsequent to the measurement date | 45,048 | - |
| Total | <u>\$ 984,917</u> | <u>\$ 155,885</u> |

The Village's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending May 31, | ERS |
|---------------------|------------|
| 2017 | \$ 200,148 |
| 2018 | 200,148 |
| 2019 | 200,148 |
| 2020 | 183,540 |

Actuarial Assumptions—The total pension liabilities as of the measurement date were determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liabilities to the measurement date. The actuarial valuations used the following actuarial assumptions:

| | ERS |
|--------------------------|----------------------------------|
| Measurement date | March 31, 2016 |
| Actuarial valuation date | April 1, 2015 |
| Interest rate | 7.00% |
| Salary scale | 3.80% |
| Decrement tables | April 1, 2010- March 31, 2015 |
| Inflation rate | 2.5% |

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2015.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

| Measurement date | ERS | |
|----------------------------|-------------------|--|
| | Target Allocation | Long-Term Expected Real Rate of Return |
| | March 31, 2016 | |
| Asset class: | | |
| Domestic equities | 38.0 % | 7.3 % |
| International equities | 13.0 | 8.6 |
| Private equity | 10.0 | 11.0 |
| Real estate | 8.0 | 8.3 |
| Absolute return strategies | 3.0 | 6.8 |
| Opportunistic portfolio | 3.0 | 8.6 |
| Real assets | 3.0 | 8.7 |
| Bonds and mortgages | 18.0 | 4.0 |
| Cash | 2.0 | 2.3 |
| Inflation-indexed bonds | 2.0 | 4.0 |
| Total | 100.0 % | |

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the Village’s proportionate share of the net pension liabilities calculated using the discount rate of 7.0%, as well as what the Village’s proportionate share of the net pension liabilities would be if they were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

| | 1% Decrease (6.0%) | Current Assumption (7.0%) | 1% Increase (8.0%) |
|--|--------------------------|---------------------------------|--------------------------|
| Employer's proportionate share of the net pension liability/(asset) | \$ 2,430,526 | \$ 1,077,873 | \$ (65,060) |

Pension Plan Fiduciary Net Position—The components of the current-year net pension liabilities of the employers as of the valuation dates, were as follows:

| | (Dollars in Thousands) |
|---|---------------------------|
| | <u>ERS</u> |
| Valuation date | March 31, 2016 |
| Employers' total pension liability | \$ 172,303,544 |
| Plan fiduciary net position | <u>156,253,265</u> |
| Employers' net pension liability | <u>\$ 16,050,279</u> |
| System fiduciary net position as a percentage of total pension liability | 90.7% |

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

Certain information contained in this note is based on information for the Length of Service Award Program (“LOSAP”) as of July 1, 2015, which is the most recent valuation date for which complete information related to the fiscal year ended May 31, 2016 is available.

The Village 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 July 1, 1996, for the active volunteer firefighters of the Village of Lancaster Volunteer Fire Department. The program was established pursuant to Article 11-A of the General Municipal Law. The program provides municipally-funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteer firefighters. The Village is the sponsor of the program and the program administrator.

Participation, vesting and service credit—Active volunteer firefighters who have reached the age of 18 and who have completed 1 year of firefighting service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award upon attaining the program’s entitlement age or becoming totally and permanently disabled or dying while an active member. The program’s entitlement age is age 65. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. A participant may also receive credit for 5 years of firefighting service rendered prior to the establishment of the program.

Benefits—A participant’s benefit under the program is the actuarial equivalent of a monthly payment for life equal to \$20 multiplied by the person’s total number of years of firefighting service. The number of years of firefighting service used to compute the benefit cannot exceed thirty. Benefits are not payable until the first day of the month if the participant attained the entitlement age on that date or the first date of the next month, except in the case of disability or death. In the case of total and permanent disability, a member shall be entitled to an immediate lump sum distribution of the actuarial equivalent of the accrued benefit. In the case of death before attaining entitlement age active members would receive the greater of the present value of accrued benefit or \$10,000. If a member is inactive for three consecutive years, the life insurance policy will be terminated.

Fiduciary Investment and Control

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

The Village is the designated program administrator. The program administrator's functions include the payment of benefits. Disbursements of program assets for the payment of benefits or administrative expenses must be approved by Volunteer Fire Insurance Services ("VFIS"), who calculates and certifies monthly and other lump sum amounts to be paid.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. Authority to invest program assets is vested in the Village's Board of Trustees. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule and the Investment Policy Statement for the LOSAP as approved by the Village Board of Trustees. The Trustee is Hartford Life.

The sponsor is required to retain an actuary to determine the amount of the sponsor's contributions to the plan. The actuary retained by the sponsor for this purpose is VFIS. Portions of the following information are derived from the most recent report prepared by the actuary with a valuation date of July 1, 2015.

Program Financial Condition

Assets and Liabilities

| | | |
|--|--|------------------|
| Actuarial present value of accrued benefits at June 30, 2015 | | \$ 2,155,351 |
| Less: Net assets available for benefits | | <u>1,241,634</u> |
| Total unfunded benefits | | <u>(913,717)</u> |

Receipts and Disbursements

| | | |
|--------------------------------|---------------|---------------------|
| Plan net assets, July 1, 2014 | | \$ 1,113,709 |
| Changes during the year: | | |
| Contribution/distribution | \$ 87,599 | |
| Gain/loss | <u>40,326</u> | <u>127,925</u> |
| Plan net assets, June 30, 2015 | | <u>\$ 1,241,634</u> |

Contributions

| | |
|---|------------|
| Amount of sponsor's contribution recommended by actuary | \$ 186,889 |
| Amount of sponsor's actual contribution | \$ 191,265 |

Administration Fees

| | |
|---------------------------|----------|
| Other administration fees | \$ 4,037 |
|---------------------------|----------|

Funding Methodology and Actuarial Assumptions

Normal Costs—The actuarial valuation methodology used by the actuary to determine the sponsor’s contribution is the Entry Age Normal Frozen Initial Liability cost method. The assumptions used by the actuary to determine the sponsor’s contribution and the actuarial present value of benefits are based on an assumed rate of return on investment of 4.75%

| | |
|--------------------|---|
| Mortality Tables: | U8400 |
| Withdrawal: | None assumed |
| Retirement: | 100% of Entitlement Age |
| Death (Actives): | Minimum \$10,000 pre-Entitlement Age active member death benefit is funded by the program |
| Death (Inactives): | Minimum \$10,000 pre-Entitlement Age active member death benefit is funded by the program |

The Village accounts for service award program assets within its Agency Fund. As of May 31, 2016 program asset information was available which totaled \$1,392,796.

9. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATIONS

Plan Description—In addition to providing pension benefits, the Village provides health insurance coverage and/or payment to eligible retired employees. Substantially all of the Village’s full-time employees may become eligible for these benefits upon retirement. The Village is obligated to pay such benefits as a result of union contracts and Village Board rules and regulation for nonunion employees. Health care benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. The Village recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the year ended May 31, 2016, \$220,862 was paid on behalf of approximately 25 retirees and was recorded as an expenditure in the respective funds.

Funding Policy—Non-union and union employees of the Village are eligible to retire with medical and vision benefits at the age of 55 and with 15 years of service. Retirees hired prior to May 31, 2006, that meet the age and years of service requirements are not required to contribute to post-employment healthcare benefits. Employees hired subsequent to March 31, 2006, will be required to contribute 10 percent of the premium for medical coverage upon retirement. Additionally, all current and future retirees are not required to contribute to post-employment dental and vision benefits. Surviving spouses are eligible for continued coverage but are required to contribute 100 percent of the premiums.

The Village’s OPEB cost is calculated based on the annual required contribution (“ARC”) of the Village, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. 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 table on the following page shows the components of the Village’s annual OPEB cost for the past two years, the amount actually contributed to the plan, and changes in the Village’s net OPEB obligation.

| | Year Ended May 31, | |
|--|--------------------|--------------|
| | 2016 | 2015 |
| Annual required contribution ("ARC") | \$ 230,213 | \$ 206,153 |
| Interest on net OPEB obligation | (14,427) | (9,547) |
| Adjustment to ARC | 20,231 | 13,388 |
| Annual OPEB cost (expense) | 236,017 | 209,994 |
| Contributions made | (220,862) | (324,818) |
| Increase (decrease) in net OPEB obligation | 15,155 | (114,824) |
| Net OPEB obligation (asset)—beginning | (339,456) | (224,632) |
| Net OPEB obligation (asset)—ending | \$ (324,301) | \$ (339,456) |

Funding Status and Funding Progress—As of June 1, 2015 the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$2,104,953.

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.

The Village's schedule of contributions for the most recent three years is shown below:

| Year Ended May 31, | Annual OPEB Cost | Contributions Made | Percentage Contributed |
|-----------------------|---------------------|-----------------------|---------------------------|
| 2016 | \$ 236,017 | \$ 220,862 | 93.6% |
| 2015 | 209,994 | 324,818 | 154.7% |
| 2014 | 216,330 | 352,732 | 163.1% |

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

In the June 1, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation and measurement date of June 1, 2015. The expected investment rate of return on employer's assets is 4.25 percent. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Village does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer's assets. The RP-2014 Mortality Table for annuitants and non-annuitants adjusted backward to 2006 with Scale MP-2014 and then adjusted for mortality improvements with the Scale MP-2015 mortality improvement scale of a fully generational basis is used for mortality rates. Rates of decrement due to disability are assumed to be 0 percent. It was assumed that 100 percent of future retirees eligible for coverage would elect medical and vision coverage through the Village and that employees would retire at the later of the age of 58 or 15 years of service. The expected per capital costs of claims was based upon the BlueCross BlueShield POS 7100 Plan, BlueCross BlueShield PPO 843 Plan, Dutchess Dental Plan, and Platinum 12 Vision Plan. The assumed rates of increase in health care vary from 3.89 percent to 11.00 percent and a consumer price index of 2.25 percent was assumed for purposes of determining future increases in limits. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis.

10. RISK MANAGEMENT

The Village is exposed to various risks of loss related to damage and destruction of assets, vehicle liability, injuries to employees, health insurance and unemployment insurance. These risks are covered by commercial insurance purchased from independent third parties. The Village purchases insurance for property, general liability, automobile, inland marine, volunteer emergency service providers and administration, and commercial crime. The general liability insurance is limited to \$1,000,000 per occurrence, and aggregate \$2,000,000 limit. Automobile insurance is limited to \$1,000,000 per accident. The umbrella liability insurance includes \$10,000 policy retention and is limited to \$5,000,000 aggregate. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded commercial insurance coverage in the past three fiscal years. The deductibles applicable to the Village include \$10,000 for property coverage, along with \$250 and \$500 for comprehensive automobile damage and collision damage, respectively.

Judgments and claims—The Village is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Village reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

11. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund Principal payments on BANs must be made annually. 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 a period equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions to principal are made. The following is a summary of the Village’s short-term debt for the fiscal year ended May 31, 2016:

| Description | Interest Rate | Maturity | Balance 6/1/2015 | Issued | Redemptions | Balance 5/31/2016 |
|--------------------------|---------------|-----------|-------------------|---------------------|-------------------|---------------------|
| Capital Fund: | | | | | | |
| DPW Equipment | 1.39% | 3/11/2016 | \$ 400,000 | \$ - | \$ 400,000 | \$ - |
| Fire Truck and Snow Plow | 2.00% | 3/10/2017 | - | 1,430,000 | - | 1,430,000 |
| Total | | | <u>\$ 400,000</u> | <u>\$ 1,430,000</u> | <u>\$ 400,000</u> | <u>\$ 1,430,000</u> |

12. LONG-TERM DEBT

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period when debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principle of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The Village’s outstanding long-term liabilities include serial bonds, compensated absences and net pension liability. The serial bonds of the Village are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in long-term liabilities for the year ended May 31, 2016 follows:

| | Balance 6/1/2015 | Additions | Reductions | Balance 5/31/2016 | Due Within One Year |
|------------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| Serial bonds | \$ 5,830,000 | \$ - | \$ 765,000 | \$ 5,065,000 | \$ 575,000 |
| Compensated absences | 151,249 | 80,155 | 62,857 | 168,547 | 8,427 |
| Net pension liability* | 238,697 | 839,176 | - | 1,077,873 | - |
| Total | <u>\$ 6,219,946</u> | <u>\$ 919,331</u> | <u>\$ 827,857</u> | <u>\$ 6,311,420</u> | <u>\$ 583,427</u> |

*Reductions to the net pension liability are shown net of additions

Serial Bonds—The Village issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 20 years.

A summary of changes in the Village's bonded debt for the year ended May 31, 2016 is presented below:

| Description | Year of Issue/ Maturity | Interest Rate % | Balance 6/1/2015 | Additions | Reductions | Balance 5/31/2016 |
|---------------------------------------|-------------------------------|--------------------|---------------------|-------------|-------------------|----------------------|
| General Fund: | | | | | | |
| Public Improvement Serial Bonds | 2006/2016 | 4.25 | \$ 20,000 | \$ - | \$ 20,000 | \$ - |
| Public Improvement Serial Bonds | 2008/2018 | 4.38-4.50 | 60,000 | - | 20,000 | 40,000 |
| Public Improvement Serial Bonds | 2010/2024 | 3.50-4.75 | 560,000 | - | 105,000 | 455,000 |
| Fire Truck Serial Bonds | 2010/2030 | 4.50-5.00 | 470,000 | - | 30,000 | 440,000 |
| Public Improvement Serial Bonds | 2011/2021 | 2.00-3.50 | 200,000 | - | 75,000 | 125,000 |
| Public Improvement Refunding Bonds | 2015/2020 | 2.00-2.25 | 538,287 | - | 105,228 | 433,059 |
| Sewer Fund: | | | | | | |
| Public Improvement Serial Bonds | 2008/2028 | 3.75-4.13 | 1,950,000 | - | 150,000 | 1,800,000 |
| Public Improvement Serial Bonds | 2013/2033 | 2.00-3.00 | 1,755,000 | - | 85,000 | 1,670,000 |
| Public Improvement Refunding Bonds | 2015/2020 | 2.00-2.25 | 121,141 | - | 23,682 | 97,459 |
| Water Fund: | | | | | | |
| Water System Improvement Serial Bonds | 1999/2016 | 4.60-4.70 | 150,000 | - | 150,000 | - |
| Public Improvement Refunding Bonds | 2015/2020 | 2.00-2.25 | 5,572 | - | 1,090 | 4,482 |
| Total governmental activities | | | <u>\$ 5,830,000</u> | <u>\$ -</u> | <u>\$ 765,000</u> | <u>\$ 5,065,000</u> |

Prior Years' Bond Refunding—On June 25, 2014, the Village issued \$790,000 in refunding bonds, which refunded the 2004 public improvement bonds. The bonds were issued at a premium of \$10,406 and included \$27,500 of issuance costs. The Village deposited \$772,731 with an escrow agent and as a result the 2004 bonds are considered refunded and the liability of these bonds, \$765,000, have been removed from the financial statements. The refunded bonds produced a net present value debt service savings of approximately \$31,149. The difference between the reacquisition price and the amount refunded, \$7,710, was reported as a deferred outflow of resources and will be amortized over the life of the refunding issuance. At May 31, 2016, the deferred outflow of resources had a balance of \$5,140.

Amortization of Bond Premiums—As noted above, on June 25, 2014, the Village issued \$790,000 in refunding bonds and received a premium of \$10,406. The premium is being amortized on a straight-line basis over the life of the bonds, which mature on May 5, 2020. The unamortized premium as of May 31, 2016 was \$6,937.

Compensated Absences—As explained in Note 1, the Village records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they come payable. The liability for compensated absences at May 31, 2016 amounts to \$168,547, of which \$8,427 is considered due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

OPEB—As explained in Note 9, the Village provides health insurance coverage for retirees. The Village's annual OPEB cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The Village reports a \$324,301 prepaid asset related to its OPEB at May 31, 2016.

Net Pension Liability—The Village reports a liability for its proportionate share of the net pension liability for the Employee’s Retirement System. The net pension liability is estimated to be \$1,077,873 in the governmental activities. Typically, all operating funds that pay NYS retirement have been used to liquidate this liability. Refer to Note 7 additional information related to the Village’s net pension liability.

The following is a maturity schedule of the Village’s long-term indebtedness:

| Year Ending May 31, | Serial Bonds | Compensated Absences | Net Pension Liability | Total |
|------------------------|---------------------|-------------------------|--------------------------|---------------------|
| 2017 | \$ 575,000 | \$ 8,427 | \$ - | \$ 583,427 |
| 2018 | 580,000 | - | - | 580,000 |
| 2019 | 475,000 | - | - | 475,000 |
| 2020 | 470,000 | - | - | 470,000 |
| 2021 | 335,000 | - | - | 335,000 |
| 2022-2026 | 1,490,000 | - | - | 1,490,000 |
| 2027-2031 | 940,000 | - | - | 940,000 |
| 2032-2036 | 200,000 | - | - | 200,000 |
| 2037-thereafter | - | 160,120 | 1,077,873 | 1,237,993 |
| Total | <u>\$ 5,065,000</u> | <u>\$ 168,547</u> | <u>\$ 1,077,873</u> | <u>\$ 6,311,420</u> |

Interest requirements on serial bonds payable are as follows:

| Year ending May 31, | Interest |
|------------------------|---------------------|
| 2017 | \$ 165,093 |
| 2018 | 146,306 |
| 2019 | 129,296 |
| 2020 | 114,618 |
| 2021 | 99,943 |
| 2022-2026 | 336,941 |
| 2027-2031 | 99,814 |
| 2032-2036 | 6,000 |
| | <u>\$ 1,098,011</u> |

13. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt (net of amounts reserved to pay debt) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. The following is a reconciliation of the Village’s governmental activities net investment in capital assets.

| | |
|---|---------------------|
| Capital assets, net of accumulated depreciation | \$ 13,989,719 |
| Less related debt: | |
| Serial bonds, net of water bonds | (5,060,518) |
| Bond anticipation notes | (1,430,000) |
| Unspent debt proceeds used for capital | <u>339,412</u> |
| Net investment in capital assets | <u>\$ 7,838,613</u> |

- **Restricted Net Position**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The total restricted component of net position of \$352,287 is restricted for repairs and debt service in the amounts of \$31,075 and \$321,212, respectively.
- **Unrestricted Net Position**—This category represents net position of the Village not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the Village at May 31, 2016 includes:

- **Prepaid items**—Represents amounts prepaid to vendors and employees that are applicable to future accounting periods. At May 31, 2016, the General Fund and Sewer Fund report prepaid item amounts of \$36,774 and \$2,102, respectively.
- **Endowment**—Represents amounts accumulated for endowments. At May 31, 2016 the Miscellaneous Special Revenue Fund report endowment amounts of \$5,475.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grants, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance maintained by the Village at May 31, 2016 includes:

- **Restricted for Repairs**—Represents amounts to be used for the cost of future repairs. At May 31, 2016 the General Fund report restricted for repairs amounts of \$31,075.
- **Restricted for Debt**—Represents amounts to be used for future debt service. At May 31, 2016 the Debt Service Fund report restricted for debt amounts of \$321,212.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the Village's highest level of decision-making authority. At May 31, 2016, the Village reported no committed fund balance.

In the fund financial statements, assignments are not legally required segregations, but are segregated for a specific purpose by the Village. At May 31, 2016, the Village reported the following fund balance assignments:

| | Subsequent Years' <u>Expenditures</u> | <u>Encumbrances</u> | Specific <u>Use</u> | <u>Total</u> |
|--------------|---|---------------------|------------------------|-------------------|
| General Fund | \$ 100,000 | \$ 29,100 | \$ - | \$ 129,100 |
| Water Fund | 1,188 | - | 78,051 | 79,239 |
| Sewer Fund | - | 118,670 | 298,648 | 417,318 |
| Total | <u>\$ 101,188</u> | <u>\$ 147,770</u> | <u>\$ 376,699</u> | <u>\$ 625,657</u> |

- ***Assigned to Subsequent Years' Expenditures***—Represents available fund balance being appropriated to meet expenditure requirements in the 2017 fiscal year.
- ***Assigned for Encumbrances***—Represents commitments related to unperformed contracts or purchase orders for goods or services.
- ***Assigned to Special Use***—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment purpose relates to each fund's operations and represents amounts within funds that are not restricted or committed.

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

14. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of May 31, 2016 is presented as follows:

| Fund | Interfund | |
|-----------------------|-------------------|-------------------|
| | Receivable | Payable |
| General Fund | \$ 37,050 | \$ 62,703 |
| Sewer Fund | 821 | 3,179 |
| Capital Projects Fund | 62,703 | 27,969 |
| Debt Service Fund | 4,395 | - |
| Agency Fund | - | 11,118 |
| Total | <u>\$ 104,969</u> | <u>\$ 104,969</u> |

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The Village made the following transfers during the year ended May 31, 2016:

| Fund | Transfers out: | | | | Total |
|-----------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| | General Fund | Water Fund | Sewer Fund | Debt Service Fund | |
| Transfers in: | | | | | |
| General Fund | \$ - | \$ - | \$ - | \$ 51,028 | \$ 51,028 |
| Sewer Fund | - | - | - | 53,020 | 53,020 |
| Capital Projects Fund | 738,699 | - | - | 271 | 738,970 |
| Debt Service Fund | 418,504 | 154,735 | 379,227 | - | 952,466 |
| Nonmajor funds | - | - | 65,581 | - | 65,581 |
| Total | <u>\$ 1,157,203</u> | <u>\$ 154,735</u> | <u>\$ 444,808</u> | <u>\$ 104,319</u> | <u>\$ 1,861,065</u> |

Transfers are used primarily to move amounts to fulfill commitments to finance various capital projects or pay down on outstanding debt.

15. AGENCY FUND

The Agency Fund was established for employee withholding and temporary deposit funds. A summary of changes in assets and liabilities for the year ended May 31, 2016 is presented below:

| | <u>Balance</u> <u>6/1/2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>5/31/2016</u> |
|-------------------------------|-----------------------------------|-------------------|-------------------|------------------------------------|
| ASSETS | | | | |
| Cash | \$ 8,276 | \$ 194,807 | \$ 195,123 | \$ 7,960 |
| Intergovernmental receivables | 6,059 | 8,025 | 6,059 | 8,025 |
| LOSAP assets | 1,244,173 | 233,087 | 84,464 | 1,392,796 |
| Total assets | <u>\$ 1,258,508</u> | <u>\$ 435,919</u> | <u>\$ 285,646</u> | <u>\$ 1,408,781</u> |
| LIABILITIES | | | | |
| Agency liabilities | \$ 6,371 | \$ 195,091 | \$ 196,595 | \$ 4,867 |
| Due to other funds | 7,964 | 104,804 | 101,650 | 11,118 |
| Amounts held for LOSAP | 1,244,173 | 233,087 | 84,464 | 1,392,796 |
| Total liabilities | <u>\$ 1,258,508</u> | <u>\$ 532,982</u> | <u>\$ 382,709</u> | <u>\$ 1,408,781</u> |

16. LABOR RELATIONS

Village employees are represented by one bargaining unit with the balance governed by Village Board rules and regulations. The bargaining unit has been negotiated through May 31, 2016.

17. COMMITMENTS

Encumbrances—Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are re-appropriated and become part of the subsequent year’s budget pursuant to state regulations.

The Village considers encumbrances to be significant for amounts that are encumbered in excess of \$20,000. As of May 31, 2016, the Village reported the following significant encumbrances:

| <u>Fund-Purpose</u> | <u>Amount</u> <u>Encumbered</u> |
|-------------------------------|------------------------------------|
| Sewer-Sewer inspection camera | \$ 107,495 |
| General-Accounting software | 20,575 |

18. CONTINGENCIES

Litigation—The Village is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the Village. The outcome of these matters is not presently determinable but, in the opinion of management, the ultimate liability will not have a material adverse effect on the Village's financial condition or results of operation.

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

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2016, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LANCASTER, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended May 31, 2016

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability ("AAL")</u> | <u>Unfunded AAL ("UAAL")</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-------------------------------------|--|--|--------------------------------------|-------------------------|----------------------------|--|
| As of June 1, 2015 | \$ - | \$ 2,104,953 | \$ 2,104,953 | - | N/A | N/A |
| As of June 1, 2012 | - | 2,571,207 | 2,571,207 | - | N/A | N/A |
| As of June 1, 2009 | - | 2,286,364 | 2,286,364 | - | N/A | N/A |

VILLAGE OF LANCASTER, NEW YORK
Schedule of the Village's Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Three Fiscal Years*

| | Year Ended May 31, | | |
|--|---------------------|-------------------|-------------------|
| | 2016 | 2015 | 2014 |
| Measurement date | March 31, 2016 | March 31, 2015 | March 31, 2014 |
| Village's proportion of the net pension liability | 0.0067156% | 0.0070657% | 0.0070657% |
| Village's proportionate share of the net pension liability | <u>\$ 1,077,873</u> | <u>\$ 238,697</u> | <u>\$ 319,290</u> |
| Village's covered-employee payroll | \$ 1,690,767 | \$ 1,920,947 | \$ 1,587,664 |
| Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 63.75% | 12.43% | 20.11% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.7% | 97.9% | 97.2% |

*Information prior to the year ended May 31, 2014 is not available.

VILLAGE OF LANCASTER, NEW YORK
Schedule of the Village's Contributions—
Employees' Retirement System
Last Three Fiscal Years*

| | Year Ended May 31, | | |
|--|--------------------|------------------|------------------|
| | 2016 | 2015 | 2014 |
| Contractually required contribution | \$ 266,212 | \$ 358,269 | \$ 274,800 |
| Contributions in relation to the contractually required contribution | <u>(266,212)</u> | <u>(358,269)</u> | <u>(274,800)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Village's covered-employee payroll | \$ 1,690,767 | \$ 1,920,947 | \$ 1,587,664 |
| Contributions as a percentage of covered-employee payroll | 15.7% | 18.7% | 17.3% |

*Information prior to the year ended May 31, 2014 is not available

VILLAGE OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual—General Fund
Year Ended May 31, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Real property taxes and tax items | \$ 4,796,891 | 4,796,891 | \$ 4,798,830 | \$ 1,939 |
| Other non-property taxes | 1,070,000 | 1,196,243 | 1,196,255 | 12 |
| Departmental income | 69,700 | 70,150 | 85,656 | 15,506 |
| Intergovernmental charges | 5,225 | 6,725 | 6,677 | (48) |
| Use of money and property | 1,200 | 1,200 | 1,071 | (129) |
| Licenses and permits | 550 | 550 | 1,929 | 1,379 |
| Fines and forfeitures | 38,000 | 38,000 | 59,577 | 21,577 |
| Sales and compensations | 8,050 | 25,838 | 23,973 | (1,865) |
| State aid | 391,534 | 567,158 | 601,666 | 34,508 |
| Federal aid | - | 176,500 | 180,124 | 3,624 |
| Miscellaneous | 1,400 | 1,400 | 52,251 | 50,851 |
| Total revenues | <u>6,382,550</u> | <u>6,880,655</u> | <u>7,008,009</u> | <u>127,354</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government support | 924,115 | 1,172,765 | 1,061,050 | 111,715 |
| Public safety | 1,125,770 | 1,270,213 | 1,246,240 | 23,973 |
| Transportation | 1,364,116 | 1,401,028 | 1,358,558 | 42,470 |
| Culture and recreation | 204,900 | 189,400 | 147,572 | 41,828 |
| Home and community services | 518,840 | 701,290 | 549,681 | 151,609 |
| Employee benefits | 1,902,000 | 1,703,150 | 1,341,775 | 361,375 |
| Debt service: | | | | |
| Principal | 405,228 | - | - | - |
| Interest | 68,806 | - | - | - |
| Total expenditures | <u>6,513,775</u> | <u>6,437,846</u> | <u>5,704,876</u> | <u>732,970</u> |
| Excess (deficiency) of revenues over expenditures | <u>(131,225)</u> | <u>442,809</u> | <u>1,303,133</u> | <u>860,324</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 51,025 | 51,025 | 51,028 | 3 |
| Transfers out | - | (1,160,060) | (1,157,203) | 2,857 |
| Total other financing sources (uses) | <u>51,025</u> | <u>(1,109,035)</u> | <u>(1,106,175)</u> | <u>2,860</u> |
| Net change in fund balances* | (80,200) | (666,226) | 196,958 | 863,184 |
| Fund balances—beginning | <u>2,347,283</u> | <u>2,347,283</u> | <u>2,347,283</u> | <u>-</u> |
| Fund balances—ending | <u>\$ 2,267,083</u> | <u>\$ 1,681,057</u> | <u>\$ 2,544,241</u> | <u>\$ 863,184</u> |

*The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance and re-appropriation of prior year encumbrances.

The note to the required supplementary information is an integral part of this schedule.

VILLAGE OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual—Water Fund
Year Ended May 31, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Departmental income | \$ 154,735 | \$ 154,735 | \$ 124,946 | \$ (29,789) |
| Use of money and property | - | - | 17 | 17 |
| Total revenues | <u>154,735</u> | <u>154,735</u> | <u>124,963</u> | <u>(29,772)</u> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal | 151,090 | - | - | - |
| Interest | 3,645 | - | - | - |
| Total expenditures | <u>154,735</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>154,735</u> | <u>124,963</u> | <u>(29,772)</u> |
| OTHER FINANCING (USES) | | | | |
| Transfers out | <u>-</u> | <u>(154,735)</u> | <u>(154,735)</u> | <u>-</u> |
| Total other financing (uses) | <u>-</u> | <u>(154,735)</u> | <u>(154,735)</u> | <u>-</u> |
| Net change in fund balances | - | - | (29,772) | (29,772) |
| Fund balances—beginning | <u>109,011</u> | <u>109,011</u> | <u>109,011</u> | <u>-</u> |
| Fund balances—ending | <u>\$ 109,011</u> | <u>\$ 109,011</u> | <u>\$ 79,239</u> | <u>\$ (29,772)</u> |

The note to the required supplementary information is an integral part of this schedule.

VILLAGE OF LANCASTER, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual—Sewer Fund
Year Ended May 31, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance with</u> <u>Final Budget</u> |
|--|-------------------------|-------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Departmental income | \$ 763,017 | \$ 763,017 | \$ 765,914 | \$ 2,897 |
| Use of money and property | - | - | 76 | 76 |
| Miscellaneous | - | - | 156 | 156 |
| Total revenues | <u>763,017</u> | <u>763,017</u> | <u>766,146</u> | <u>3,129</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government support | 9,200 | 9,200 | 4,200 | 5,000 |
| Home and community services | 412,775 | 395,275 | 316,427 | 78,848 |
| Employee benefits | 120,600 | 120,600 | 88,960 | 31,640 |
| Debt service: | | | | |
| Principal | 258,682 | - | - | - |
| Interest | 120,545 | - | - | - |
| Total expenditures | <u>921,802</u> | <u>525,075</u> | <u>409,587</u> | <u>115,488</u> |
| Excess (deficiency) of revenues over expenditures | <u>(158,785)</u> | <u>237,942</u> | <u>356,559</u> | <u>118,617</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 53,020 | 53,020 | 53,020 | - |
| Transfers out | - | (444,808) | (444,808) | - |
| Total other financing sources (uses) | <u>53,020</u> | <u>(391,788)</u> | <u>(391,788)</u> | <u>-</u> |
| Net change in fund balances* | (105,765) | (153,846) | (35,229) | 118,617 |
| Fund balances—beginning | <u>454,649</u> | <u>454,649</u> | <u>454,649</u> | <u>-</u> |
| Fund balances—ending | <u>\$ 348,884</u> | <u>\$ 300,803</u> | <u>\$ 419,420</u> | <u>\$ 118,617</u> |

*The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance and re-appropriation of prior year encumbrances.

The note to the required supplementary information is an integral part of this schedule.

VILLAGE OF LANCASTER, NEW YORK
Note to the Required Supplementary Information
Year Ended May 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary basis of accounting—Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Water Fund and Sewer Fund. The Capital Projects Fund appropriations are not included in the Village's annual budget. The Capital Projects Fund is appropriated on a project-length basis; appropriations are approved through Village Board of Trustees resolution at the projects inception and lapse at upon termination of the project. The Special Grant Fund does not have an appropriated budget since other means control the use of these resources (e.g., grant awards), and sometimes span a period of more than one fiscal year. The funds are accepted by Village Board of Trustees resolution and appropriations lapse upon fully expending such funds.

When preparing the budget, the Village appropriates funds for debt service payments within the respective operating funds. However, when a payment becomes due, the Village amends the budget through Village Board of Trustees resolution creating a transfer out of the individual operating fund into the debt service fund, which is ultimately responsible for debt service activity.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations require the approval of the Village Board of Trustees. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

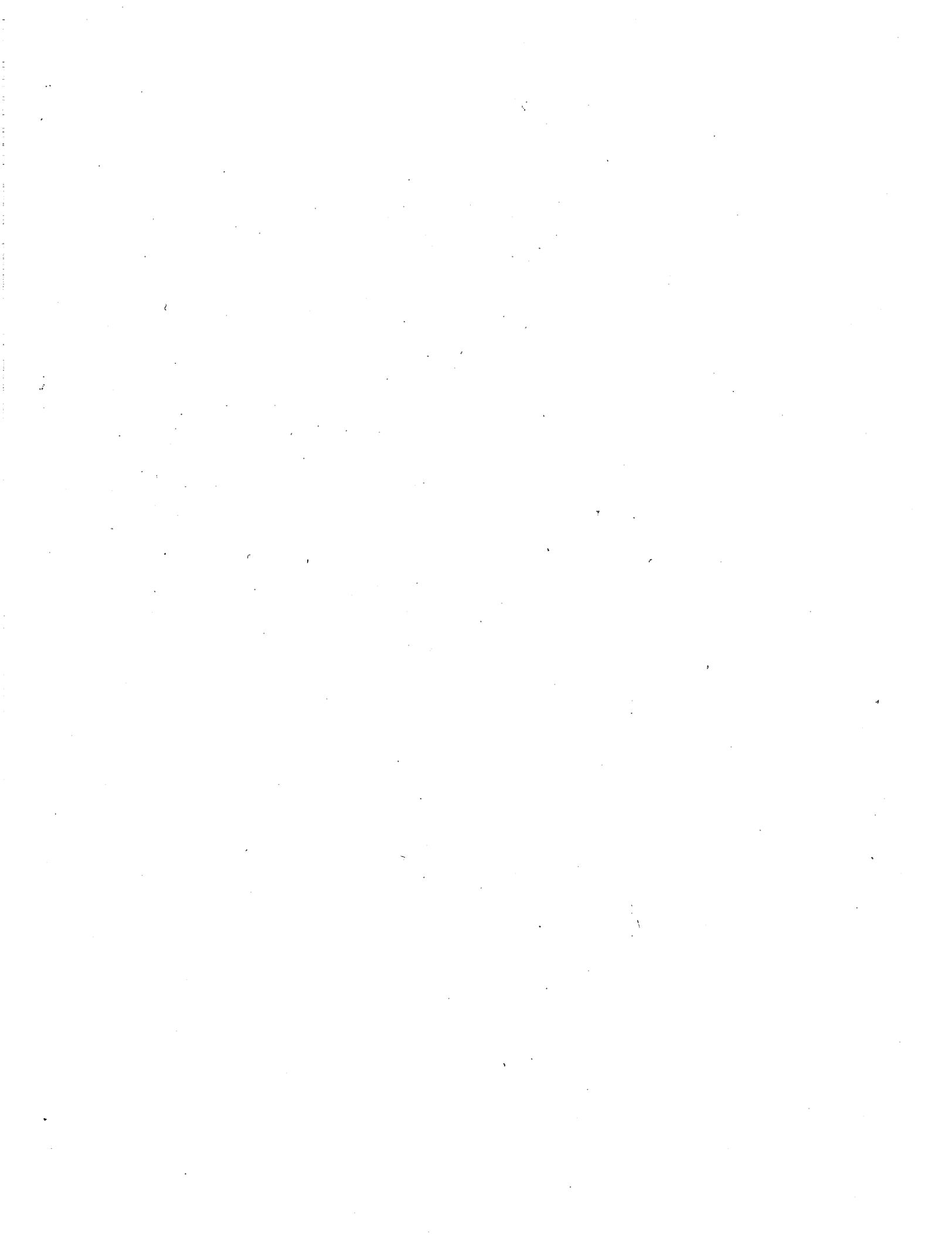
Actual results of operations presented in accordance with GAAP and the Village's accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. Significant encumbrances are disclosed in the notes to the financial statements.

The General Fund original budget includes encumbrances from the prior year of \$10,200 and the Sewer Fund original budget includes encumbrances from the prior year of \$10,765. The Village considers encumbrances to be significant for amounts encumbered in excess of \$20,000. The Village has a total of \$29,100 encumbrances outstanding at May 31, 2016.

During the year ended May 31, 2016, the Village Board of Trustees appropriated \$342,252 and \$242,810 of General Fund fund balance for a paydown of bond anticipation notes debt and capital project expenditures, respectively. Additionally, the Village Board of Trustees appropriated \$48,081 and of Sewer Fund fund balance during the year ended May 31, 2016 for capital project expenditures.

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SUPPLEMENTARY INFORMATION



VILLAGE OF LANCASTER, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
Year Ended May 31, 2016

| | Special Revenue | | |
|--------------------------------------|--------------------------|--|-------------------------------------|
| | Special Grant | Miscellaneous Special Revenue | Total Nonmajor Funds |
| ASSETS | | | |
| Restricted cash and cash equivalents | \$ - | \$ 5,475 | \$ 5,475 |
| Total assets | \$ - | \$ 5,475 | \$ 5,475 |
| FUND BALANCES | | | |
| Nonspendable | \$ - | \$ 5,475 | \$ 5,475 |
| Total fund balances | \$ - | \$ 5,475 | \$ 5,475 |

VILLAGE OF LANCASTER, NEW YORK
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended May 31, 2016

| | <u>Special Revenue</u> | | |
|--------------------------------------|-------------------------------|--|-------------------------------------|
| | <u>Special Grant Fund</u> | <u>Miscellaneous Special Revenue</u> | <u>Total Nonmajor Funds</u> |
| REVENUES | | | |
| State aid | \$ 100,000 | \$ - | \$ 100,000 |
| Total revenues | <u>100,000</u> | <u>-</u> | <u>100,000</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Home and community services | <u>165,581</u> | <u>-</u> | <u>165,581</u> |
| Total expenditures | <u>165,581</u> | <u>-</u> | <u>165,581</u> |
| Excess of revenues over expenditures | <u>(65,581)</u> | <u>-</u> | <u>(65,581)</u> |
| OTHER FINANCING SOURCES | | | |
| Transfers in | <u>65,581</u> | <u>-</u> | <u>65,581</u> |
| Total other financing sources | <u>65,581</u> | <u>-</u> | <u>65,581</u> |
| Net change in fund balances | - | - | - |
| Fund balances—beginning | <u>-</u> | <u>5,475</u> | <u>5,475</u> |
| Fund balances—ending | <u>\$ -</u> | <u>\$ 5,475</u> | <u>\$ 5,475</u> |

Certified Public Accountants

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

Honorable Mayor and Village Trustees
Village of Lancaster, New York:

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 Village of Lancaster, New York (the "Village"), as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated September 23, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged by 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 over financial reporting 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's 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*.

Village's Response to Finding

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Village's 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.



September 23, 2016

VILLAGE OF LANCASTER, NEW YORK
Schedule of Findings and Responses
Year Ended May 31, 2016

We consider the following deficiency to be a significant deficiency in internal control:

Finding 2016-001—Capital Assets

Criteria: The Village should formalize capital asset processes to ensure that proper procedures and related internal controls are in place and consistently followed.

Condition: There is no formalized and board approved capital asset policy in place.

Context:

- Capital assets were not added to a master listing until year end.
- There is no disposal form used to track the disposals or sales of assets in the Village.
- There is no formalized and board approved inventory process.
- Asset tags are not used for capital assets.
- There is no formalized and board approved capitalization threshold.
- There is no formalized and board approved depreciation procedures.

Cause: The Village has not formally documented many of its capital asset processes.

Effect or Potential Effect: There is a risk that capital assets would be misstated due to assets not being recorded or disposals that are not communicated to the Treasurer.

Recommendation: We suggest the implementation of a policy that would designate expenditures over a certain dollar value as capital expenditures that are to be recorded as depreciable fixed assets. This will set a standard regarding the level of fixed assets that will need to be recorded. We also recommend the use of asset tags for all assets, the use of disposal forms as well as Board approval of all disposals, an annual inventory of capital assets by the Treasurer or someone independent of the asset holder, and the adoption of standard depreciation procedures.

Management's view and corrective action plan: Management is currently in the process of reviewing the capital asset inventory procedures to develop a formal policy. This process will involve the creation of tracking forms, identifying criteria for asset additions and disposals, and the development of an annual inventory plan. The Village is planning on hiring an outside company to do the inventory count, which would give the Village a starting point in accounting for inventories.

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