

TOWN OF GATES
AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2011

TOWN OF GATES

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INDEPENDENT AUDITORS' REPORT

To the Members of the Town Board
Town of Gates
Gates, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Gates as of and for the year ended December 31, 2011, which collectively comprise the 2011 basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Gates management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Gates as of December 31, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012, on our consideration of the Town of Gates'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 32 through 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Gates basic financial statements as a whole. The combining and individual nonmajor fund financial statements on pages 35 through 36, are presented for purposes of additional analysis and are not a required part of the basic financial statements and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
May 14, 2012

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

The following is a discussion and analysis of the Town of Gates (the "Town") financial performance for the fiscal year ended December 31, 2011. The section is a summary of the Town's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund based financial statements. This section is only an introduction and should be read in conjunction with the Town's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The Town's net assets increased by \$861,726 for the year ended December 31, 2011 with revenues of \$15,925,874 exceeding expenses of \$15,064,148 (including OPEB expenses of \$128,296). Total net assets of the Town are \$14,114,724. During the year revenues decreased by 9.6% and expenses decreased by 23.2%.
- The Town's governmental fund balances decreased by \$190,605 for the year ended December 31, 2011 with expenditures of \$16,968,725 exceeding revenues of \$16,778,120. Total governmental fund balances of the Town are \$5,345,259.
- The Town made an early paid down on the serial bond for the Justice Court Building, which had an original maturity date of June 2014. The amount paid in 2011 was \$700,000.
- As required by GASB 45, the Town recorded Other Post Employment Benefits (OPEB). As a result, liabilities on the statement of net assets and expenses on the statement of activities were increased by \$128,296, resulting in a total liability of \$9,528,646. The liability and expenditures are included only on the government-wide financial statements and are not included on the fund financial statements.

USING THIS ANNUAL REPORT

This annual report consists of four parts: *management's discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Town.

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.
- The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

In addition, the statements include a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements.

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

Government-wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Historically, a government's largest group of assets (infrastructure - roads, bridges, etc.) have not been reported nor depreciated in governmental financial statements. The government-wide statements require that these assets be valued and reported within the governmental column of the government-wide statements. Additionally, the government must elect to either (1) depreciate these assets over their estimated useful life or (2) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The Town has chosen to depreciate assets over their useful life. If a road project is considered maintenance, a recurring cost that does not extend the road's original useful life or expand its capacity, the cost of the project will be expensed.

The two government-wide statements report the Town's net assets and how they have changed. Net assets, the difference between the Town's assets and liabilities, is one way to measure the Town's financial health, or position.

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town the user will need to consider additional nonfinancial factors such as changes in the Town's property tax base and the condition of the Town's roads.

The government-wide financial statements of the Town include

- Governmental activities - Most of the Town's basic services are included here, such as general government support, public safety, transportation, economic assistance, culture and recreation, home and community services, and debt interest. Property taxes, sales taxes, mortgage taxes, franchise fees and other grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds, not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Town Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

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

The Town has two types of funds

- **Governmental Funds** - Most of the Town's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the Town provides additional information in the footnotes for fixed assets and long-term debt that support the basic financial statements.
- **Fiduciary Funds** - The Town is the trustee, or fiduciary, for its trust and agency account. It is also responsible for other assets that because of a trust arrangement - can be used only for the trust beneficiaries. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Town's fiduciary activities are reported in a separate statement of fiduciary net assets. The Town excludes these activities from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The condensed statements of net assets provides the perspective of the Town as a whole.

(Table 1)

Condensed Statements of Net Assets
December 31, 2011 and 2010

	<u>Governmental Activities</u>		<u>%</u>
	<u>2011</u>	<u>Restated 2010</u>	<u>Change</u>
Assets			
Current assets	\$ 6,834,348	\$ 7,347,849	(7.0)
Capital assets	<u>19,693,420</u>	<u>19,556,092</u>	0.7
Total assets	<u>26,527,768</u>	<u>26,903,941</u>	(1.4)
Liabilities			
Other liabilities	588,328	1,172,899	(49.8)
Long-term liabilities	<u>11,824,716</u>	<u>12,478,044</u>	(5.2)
Total liabilities	<u>12,413,044</u>	<u>13,650,943</u>	(9.1)
Net Assets			
Investments in capital assets, net of debt	19,113,420	17,850,092	7.1
Restricted	57,758	1,055,171	(94.5)
Unrestricted	<u>(5,056,454)</u>	<u>(5,652,265)</u>	(10.5)
Total net assets	<u>\$ 14,114,724</u>	<u>\$ 13,252,998</u>	6.5

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

(Table 2)

Changes in Net Assets from Operating Results
For the Years Ended December 31, 2011 and 2010

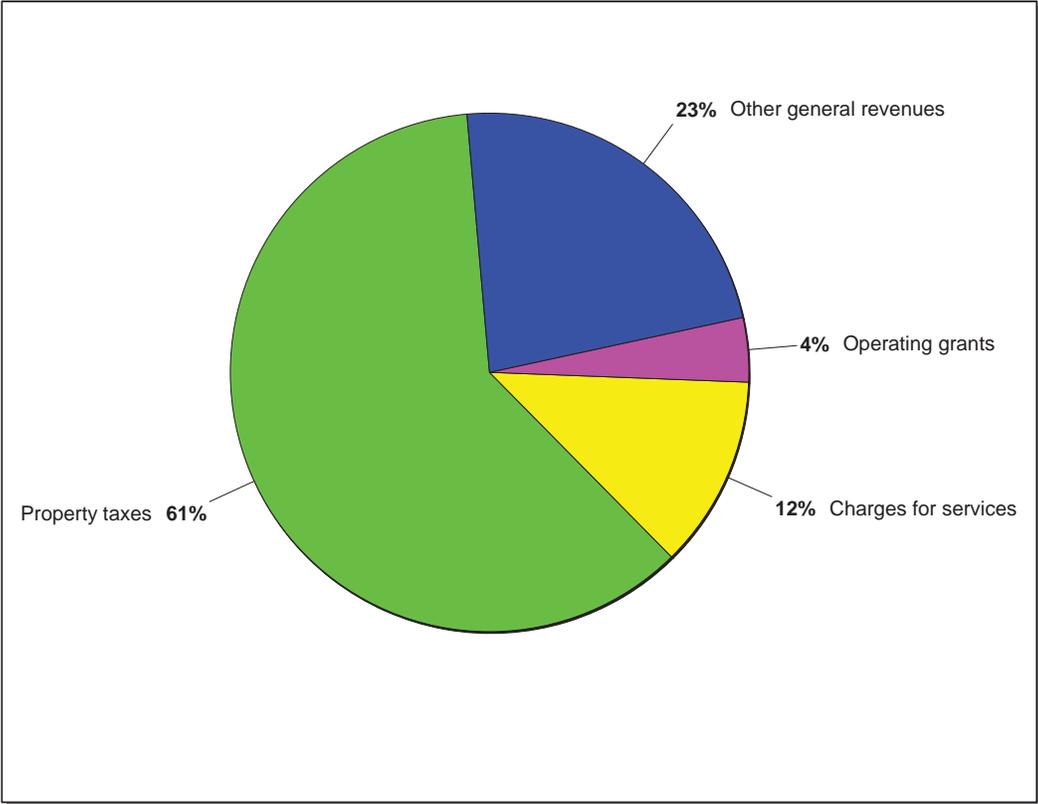
	<u>Governmental Activities</u>		<u>%</u>
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues			
Program Revenues			
Charges for services	\$ 1,860,160	\$ 1,502,366	23.8
Operating grants and contributions	665,050	835,271	(20.4)
General Revenues			
Real property taxes	9,777,576	9,824,529	(0.5)
Real property tax items	498,277	713,473	(30.2)
Non property tax items	2,205,077	1,970,183	11.9
Use of money and property	36,554	352,717	(89.6)
Sale of property and compensation for income	139,177	1,661,085	(91.6)
Miscellaneous local sources	170,016	118,850	43.1
Interfund revenues	-	2,508	100.0
State aid	573,987	638,702	(10.1)
Total revenues	<u>15,925,874</u>	<u>17,619,684</u>	(9.6)
Expenses			
General government support	3,281,277	4,241,341	(22.6)
Public safety	5,033,746	7,214,133	(30.2)
Transportation	3,737,302	3,931,108	(4.9)
Economic assistance	11,635	12,844	(9.4)
Culture and recreation	2,804,422	4,002,541	(29.9)
Home and community services	149,359	150,701	(0.9)
Debt interest	46,407	73,565	(36.9)
Total expenses	<u>15,064,148</u>	<u>19,626,233</u>	(23.2)
Change in Net Assets	<u>\$ 861,726</u>	<u>\$ (2,006,549)</u>	(142.9)

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

As reported in the statement of activities the cost of all governmental activities was \$15,064,148. However, the amount that taxpayers ultimately financed for these activities through the Town real property taxes was \$9,777,576.

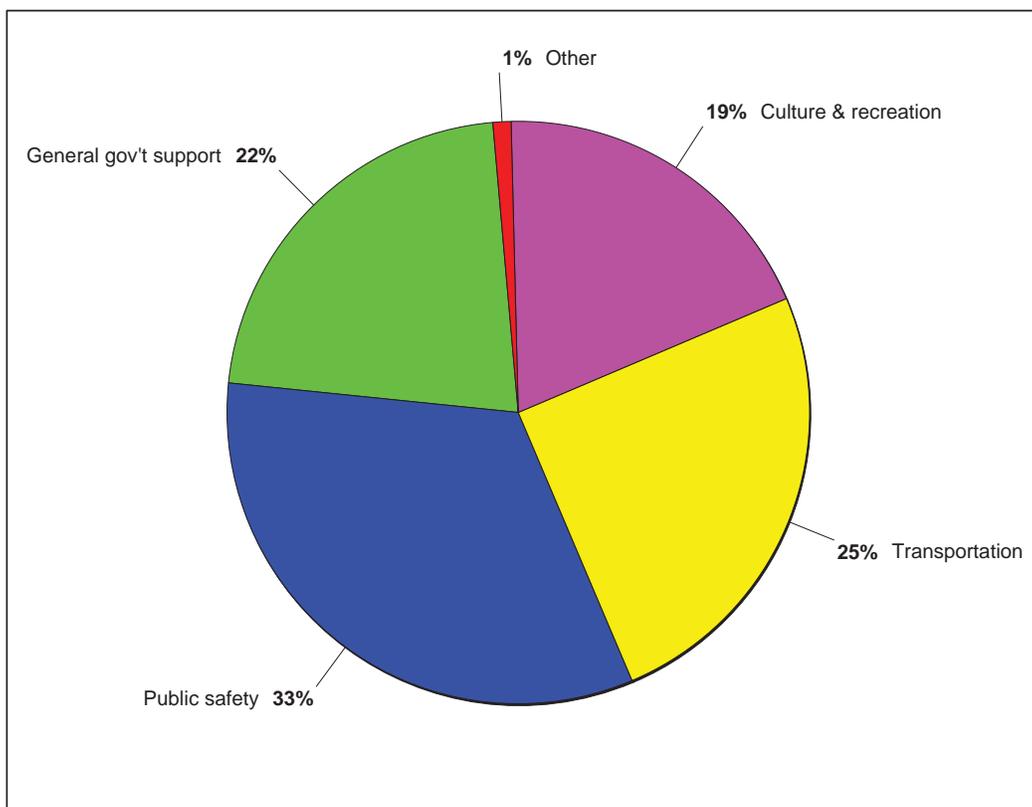
Tables 3-A&B show the revenues and expenses on a percentage basis for the governmental activities:

Table 3-A
Sources of Revenues for Governmental Activities
Fiscal Year 2011



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

Table 3-B
Expenses for Governmental Activities
Fiscal Year 2011



Governmental Activities

In Table 4, we have presented the cost of each of the Town functions and programs, as well as each function's net cost (total cost less revenues generated by the activities). Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

(Table 4)

<u>Functions/Programs</u>	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>	<u>Total Cost of Services 2010</u>	<u>Net Cost (Profit) of Services 2010</u>
General government support	\$ 3,281,277	\$ 2,931,460	\$ 4,241,341	\$ 3,956,698
Public safety	5,033,746	4,528,313	7,214,133	6,679,033
Transportation	3,737,302	2,890,837	3,931,108	3,223,346
Economic assistance	11,635	11,635	12,844	12,844
Culture and recreation	2,804,422	1,995,647	4,002,541	3,425,782
Home and community services	149,359	134,639	150,701	(82,672)
Debt interest	46,407	46,407	73,565	73,565
Total expenses	<u>\$ 15,064,148</u>	<u>\$ 12,538,938</u>	<u>\$ 19,626,233</u>	<u>\$ 17,288,596</u>

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

- **General government support** - Includes expenses of the Town Board, Town offices and administration, contracted professional services, buildings and grounds maintenance, and insurance along with the associated employee benefits.
- **Public safety** - Includes the expenses for the police and public safety departments along with the associated employee benefits.
- **Transportation** - Includes salaries for employees in the highway department and the cost of repairing and maintaining Town roads along with the associated employee benefits.
- **Economic assistance** - Includes expenses for the Town's social services.
- **Culture and recreation** - Includes the salaries for employees and cost associated with maintaining the Town playgrounds, library and historical society along with the associated employee benefits.
- **Home and community services** - Includes the salaries for employees and cost associated with maintaining the Town zoning, planning and conservation boards along with the associated employee benefits.
- **Debt interest** - Includes the transactions associated with the payment of interest and other related charges to debt for improvements to the Town.

THE MAJOR GOVERNMENTAL FUNDS

Fund financial statements are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$16,778,120 and expenditures and other financing uses of \$16,968,725. The fund balance in the general fund increased by \$355,914 increasing the fund balance to \$4,608,544 at December 31, 2011. In the highway fund, the fund balance increased by \$42,848 increasing the fund balance to \$43,332. The fund balance in the library fund decreased by \$342,642 decreasing the fund balance to \$72,322. The fund balance in the other governmental funds decreased by \$246,725 decreasing the fund balance to \$621,061, for a total decrease of \$190,605 for all government funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Revenues - Actual revenues exceeded budgeted revenues by \$723,869. This is mostly explained by an increase in sales tax revenue. Other items that were higher than budgeted were refunds for insurance recoveries, recreation revenues and cable TV franchise fees.
- Expenditures - budgeted expenditures exceeded actual expenditures by \$198,045. The majority of the difference is explained by the interfund transfer for the payoff of the bonds for the Justice Court Building.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the governmental activities of the Town had \$37,905,957 invested in land, buildings, land improvements, infrastructure, and machinery and equipment. Depreciation expense of \$868,500 has been recorded in the current year. The current net book value is \$19,693,420.

Table 5 shows the fiscal 2011 and 2010 balances for the major classes of assets:

(Table 5)

Capital Assets (Net of Depreciation)
December 31, 2011 and 2010

	<u>2011</u>	<u>Restated 2010</u>	<u>% Change</u>
Land	\$ 1,284,000	\$ 1,284,000	-
Buildings	3,417,623	3,530,644	(3.2)
Land improvements	390,430	412,269	(5.3)
Machinery and equipment	2,738,345	2,188,496	25.1
Infrastructure	<u>11,863,022</u>	<u>12,140,683</u>	(2.3)
Total	<u>\$ 19,693,420</u>	<u>\$ 19,556,092</u>	0.7

Additional information on the Town's capital assets can be found in notes to these financial statements.

Long Term Debt

At December 31, 2011, the Town had total long-term debt of \$11,824,716 outstanding which was a decrease of \$653,328 from the previous year.

(Table 6)

Outstanding Debt
December 31, 2011 and 2010

Governmental Activities	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Bonds payable	\$ 580,000	\$ 1,555,000	(62.7)
Compensated absences	477,533	469,602	1.7
Due to employee's retirement system	1,238,537	1,053,092	17.6
OPEB liability	<u>9,528,646</u>	<u>9,400,350</u>	1.4
Total	<u>\$ 11,824,716</u>	<u>\$ 12,478,044</u>	(5.2)

The Town maintains a A1 bond rating according to Moody's as of December 31, 2011. Subsequent to year end the Moody's bond rating was upgraded to Aa3.

Additional information on the Town's long-term debt can be found in notes to these financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The tax base of the Town has remained stable. The 2012 budget provides for real estate tax revenues of \$9,721,501, which is similar to \$9,744,068 raised in 2011. The budget provides for debt service payments of \$300,681 of which \$285,000 will be used for long term debt principal payments.

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Town citizens, taxpayers, customers, investors, and creditors with a general overview of the Town finances and to demonstrate the Town accountability for the money it receives. If you have questions about this report or need additional financial information, contact the:

Town of Gates
Finance Department
1605 Buffalo Road
Gates, New York, 14624

TOWN OF GATES
Statement of Net Assets
December 31, 2011

	Primary Government	Governmental Activities
Assets		
Cash and cash equivalents - unrestricted	\$ 5,883,101	
Other receivables - net	6,100	
Due from other governments	841,160	
Investments	46,229	
Cash and cash equivalents - restricted	57,758	
Capital assets		
Capital assets not depreciated	1,284,000	
Capital assets - net of depreciation	<u>18,409,420</u>	
Total assets		<u>26,527,768</u>
Liabilities		
Accounts payable		487,062
Accrued liabilities		101,266
Long-term liabilities		
Portion due or payable within one year		
Bonds payable		285,000
Compensated absences		47,753
Due to employees' retirement system		999,004
Portion due or payable after one year		
Bonds payable		295,000
Compensated absences		429,780
Due to employee's retirement system		239,533
OPEB liability		<u>9,528,646</u>
Total liabilities		<u>12,413,044</u>
Net Assets		
Investment in capital assets - net of related debt		19,113,420
Restricted for		
Police escrow reserve		36,116
Library reserve		21,642
Unrestricted		<u>(5,056,454)</u>
Total net assets		<u>\$ 14,114,724</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES
Statement of Activities
For the Year Ended December 31, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>				Net (Expenses) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Primary Government Governmental Activities
Primary Government					
Governmental activities					
General government support	\$ 3,281,277	\$ 285,176	\$ 64,641	\$ -	\$ (2,931,460)
Public safety	5,033,746	413,948	91,485	-	(4,528,313)
Transportation	3,737,302	710,384	136,081	-	(2,890,837)
Economic assistance	11,635	-	-	-	(11,635)
Culture and recreation	2,804,422	435,932	372,843	-	(1,995,647)
Home and community services	149,359	14,720	-	-	(134,639)
Debt interest	46,407	-	-	-	(46,407)
Total primary government	\$ 15,064,148	\$ 1,860,160	\$ 665,050	\$ -	(12,538,938)
General Revenues					
Real property taxes					9,777,576
Real property tax items					498,277
Non property tax items					2,205,077
Use of money and property					36,554
Sale of property and compensation for income					139,177
Miscellaneous local sources					170,016
State aid					573,987
Total general revenues					<u>13,400,664</u>
Change in Net Assets					<u>861,726</u>
Net Assets - Beginning - as Previously Stated					16,214,465
Restatement					<u>(2,961,467)</u>
Net Assets - Beginning - as Restated					<u>13,252,998</u>
Net Assets - Ending					<u>\$ 14,114,724</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES
Balance Sheets
Governmental Funds
December 31, 2011

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Library Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets					
Cash and cash equivalents - unrestricted	\$ 5,005,488	\$ 124,723	\$ 129,866	\$ 623,024	\$ 5,883,101
Other receivables - net	5,197	-	903	-	6,100
Due from other funds	21,898	1,320	-	-	23,218
Due from other governments	649,649	131,865	36,428	-	817,942
Investments	-	-	46,229	-	46,229
Cash and cash equivalents - restricted	<u>36,116</u>	<u>-</u>	<u>21,642</u>	<u>-</u>	<u>57,758</u>
Total Assets	<u>\$ 5,718,348</u>	<u>\$ 257,908</u>	<u>\$ 235,068</u>	<u>\$ 623,024</u>	<u>\$ 6,834,348</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 281,392	\$ 91,303	\$ 112,404	\$ 1,963	\$ 487,062
Accrued liabilities	38,839	47,931	8,485	-	95,255
Due to employees' retirement system	<u>789,573</u>	<u>75,342</u>	<u>41,857</u>	<u>-</u>	<u>906,772</u>
Total liabilities	<u>1,109,804</u>	<u>214,576</u>	<u>162,746</u>	<u>1,963</u>	<u>1,489,089</u>
Fund Balances					
Restricted					
Reserve for police escrow	36,116	-	-	-	36,116
Reserve for library	-	-	21,642	-	21,642
Assigned					
Reserve for subsequent year	483,000	-	-	-	483,000
Reserve for highway	-	43,332	-	-	43,332
Reserve for library	-	-	50,680	-	50,680
Reserve for lighting	-	-	-	19,536	19,536
Reserve for debt service	-	-	-	601,525	601,525
Unassigned	<u>4,089,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,089,428</u>
Total fund balances	<u>4,608,544</u>	<u>43,332</u>	<u>72,322</u>	<u>621,061</u>	<u>5,345,259</u>
Total Liabilities and Fund Balances	<u>\$ 5,718,348</u>	<u>\$ 257,908</u>	<u>\$ 235,068</u>	<u>\$ 623,024</u>	<u>\$ 6,834,348</u>

The accompanying notes are an integral part of these financial statements.

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

Total governmental fund balances		\$ 5,345,259
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:		
Land	<u>1,284,000</u>	
Total capital assets not depreciated		1,284,000
Buildings	5,590,926	
Land improvements	606,644	
Machinery and equipment	6,183,260	
Infrastructure	<u>24,241,127</u>	
Total depreciable assets	36,621,957	
Less accumulated depreciation	<u>(18,212,537)</u>	
Total capital assets, net of depreciation		18,409,420
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of the following:		
Due to employees' retirement system	(331,765)	
Bonds payable	(580,000)	
Compensated absences	(477,533)	
OPEB liability	<u>(9,528,646)</u>	
Total liabilities		(10,917,944)
Other differences		
Accrued liabilities	<u>(6,011)</u>	
Total other differences		<u>(6,011)</u>
Net assets of governmental activities		<u>\$ 14,114,724</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES
Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Library Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Real property taxes	\$ 6,050,573	\$ 2,265,837	\$ 1,244,402	\$ 216,764	\$ 9,777,576
Real property tax items	498,277	-	-	-	498,277
Non property tax items	2,205,077	-	-	-	2,205,077
Department income	461,171	-	57,233	-	518,404
Intergovernmental charges	30,730	710,384	-	-	741,114
Use of money and property	26,644	3,204	3,693	3,013	36,554
Licenses and permits	192,624	-	-	-	192,624
Fines and forfeitures	408,018	-	-	-	408,018
Sale of property and compensation for income	140,990	76,155	14,721	-	231,866
Miscellaneous local sources	48,908	11,846	109,262	-	170,016
State aid	729,615	136,081	372,843	-	1,238,539
Federal aid	498	-	-	-	498
Total revenues	<u>10,793,125</u>	<u>3,203,507</u>	<u>1,802,154</u>	<u>219,777</u>	<u>16,018,563</u>
Other Financing Sources					
Interfund transfers	71,221	-	-	537,336	608,557
BAN redeemed from appropriations	-	-	-	151,000	151,000
Total revenues and other financing sources	<u>10,864,346</u>	<u>3,203,507</u>	<u>1,802,154</u>	<u>908,113</u>	<u>16,778,120</u>
Expenditures					
General government support	2,355,538	-	-	47,067	2,402,605
Public safety	3,050,084	-	-	-	3,050,084
Transportation	479,932	2,447,757	-	12,245	2,939,934
Economic assistance and opportunity	11,635	-	-	-	11,635
Culture and recreation	792,000	-	1,852,453	-	2,644,453
Home and community services	142,589	-	-	-	142,589
Employee benefits	3,034,361	547,123	285,495	-	3,866,979
Debt principal	104,957	163,665	6,848	975,000	1,250,470
Debt interest	-	2,114	-	49,305	51,419
Total expenditures	<u>9,971,096</u>	<u>3,160,659</u>	<u>2,144,796</u>	<u>1,083,617</u>	<u>16,360,168</u>
Other Financing Use					
Interfund transfers	537,336	-	-	71,221	608,557
Total expenditures and other financing use	<u>10,508,432</u>	<u>3,160,659</u>	<u>2,144,796</u>	<u>1,154,838</u>	<u>16,968,725</u>
Change in Fund Balance	355,914	42,848	(342,642)	(246,725)	(190,605)
Fund Balances - Beginning	<u>4,252,630</u>	<u>484</u>	<u>414,964</u>	<u>867,786</u>	<u>5,535,864</u>
Fund Balances - Ending	<u>\$ 4,608,544</u>	<u>\$ 43,332</u>	<u>\$ 72,322</u>	<u>\$ 621,061</u>	<u>\$ 5,345,259</u>

The accompanying notes are an integral part of these financial statements.

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

Net change in fund balances - total governmental funds		\$ (190,605)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are the following		
Capital outlay	1,098,517	
Depreciation expense	<u>(868,500)</u>	
Excess of capital outlay over depreciation		230,017
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current period, these amounts are the following		
Debt repayments		975,000
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts are the following		
Compensated absences		(7,931)
OPEB liability		(128,296)
Other differences		
Accrued liabilities	5,012	
Retirement system	71,218	
Loss on disposition of assets	<u>(92,689)</u>	
Total other differences		<u>(16,459)</u>
Change in net assets of governmental activities		<u>\$ 861,726</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents - restricted	\$ 372,031
Total assets	<u>\$ 372,031</u>
LIABILITIES	
Agency liabilities	\$ 345,962
Accounts payable	2,851
Due to other funds	<u>23,218</u>
Total liabilities	<u>\$ 372,031</u>

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Gates (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units hereinafter referred to as generally accepted accounting principals (GAAP). The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The following is a summary of significant accounting policies and reporting practices of the Town:

A. Reporting Entity

Primary Government - The Town, which was established in 1809, is governed by the Town Law and other general laws of the State of New York. The governing body is the Town Board. The scope of activities included within the accompanying financial statements are those transactions which comprise Town operations, and are governed by, or significantly influenced by, the Town Board. These services include general government support, public safety and health, transportation, economic assistance and opportunity, culture and recreation, and home and community service. The financial reporting entity includes all funds, account groups, functions and organizations over which the Town Board exercises oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Included in the reporting entity are the activities of the Town Clerk, Court Clerk, and the Receiver of Taxes.

B. Basis of Presentation

1. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. The effect of material interfund activity has been eliminated from these statements.

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

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

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds, including governmental and fiduciary. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining nonmajor funds are aggregated and reported as "other governmental" funds.

TOWN OF GATES
Notes to Financial Statements

- a. The Town reports the following major governmental funds:
 - i. The general fund is the Town's primary operating fund and is always considered a major fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.
 - ii. For the year ended December 31, 2011, the highway fund qualified as a major fund. The highway fund is a special revenue fund that is used to account for the Town's Department of Public Works.
 - iii. For the year ended December 31, 2011, the library fund qualified as a major fund. The library fund is a special revenue fund that is used to account for all transactions of the Town's Public Library.

C. Fund Types

1. Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position. The following are the Town's governmental fund types:

General Fund - The general fund is the general operating fund of the Town. The fund is used to account for all financial resources except for those required to be accounted for in a separate fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action. The special revenue funds consist of the following funds:

- **Highway Fund** - Used to account for all transactions of the Department of Public Works except for Public Works administration which is included in the general fund.
- **Library Fund** - Used to account for all transactions of the Town's Public Library.
- **Special District Funds** - Used to account for the transactions of districts which do not encompass the tax base of the entire Town. Such funds include the lighting districts.

Debt Service Fund - The debt service fund is used to finance and account for revenues raised for the payment of interest and principal on debt and to account for those expenditures.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Fiduciary Funds (Trust and Agency Funds)

Fiduciary funds are used to account for fiduciary activities. Fiduciary activities are those in which the Town acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements because their resources do not belong to the Town and are not available for use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Included in the trust and agency fund are the assets and liabilities of the Town Clerk, Court Clerk and Receiver of Taxes.

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

1. Accrual Basis

The government-wide financial statements along with the fiduciary fund type on the government fund statements are accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred. Fixed assets and long-term liabilities related to these activities are recorded within the funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements except when the elimination would distort direct costs and program revenue reported for the various functions concerned.

2. Modified Accrual Basis

The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Available means collectable within 60 days of the end of the current fiscal period to be used to pay liabilities of the current period. Revenues, which are subject to accrual, include real property taxes, sales taxes and state and federal aid. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made. Expenditures are recorded when the fund liability is incurred except that:

- a. Expenditures for inventory-type items are recognized at the time of the disbursements.
- b. Principal and interest on indebtedness are not recognized as an expenditure until due.
- c. Compensated absences, such as vacation and sick leave which vest or accumulate, are charged as an expenditure when paid.

3. Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from these estimates.

4. Budgetary Data

The budget of the Town is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget utilizes the modified accrual method of accounting and includes:

- The programs, projects, services and activities to be carried on during the fiscal year.
- The estimated revenue available to finance the operating plan.
- The estimated spending requirements of the operating plan.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

- The Town adopts an annual budget for governmental funds, special revenue funds and debt service funds in November for the following year.
- The Town Board is authorized to transfer budgeted amounts within funds, however, transfers between funds are regulated by State law.
- Amended budgets for budgeted funds are presented in the statement of revenues, expenditures and changes in fund balances - budget and actual. All annual appropriations lapse at fiscal year end.

TOWN OF GATES
Notes to Financial Statements

5. Cash and Cash Equivalents

The Town includes all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less from the date of purchase as cash and cash equivalents.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental type activity column in the government-wide financial statements. Capital assets are defined by the Town within the capitalization policies established by the Town. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>	<u>Capitalization Threshold</u>
Buildings and improvements	25-50	\$25,000
Infrastructure		
Roads and surfaces	25-75	\$50,000
Sidewalks	25	\$25,000
Machinery and equipment	3-20	\$5,000

7. Compensated Absences

Town employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

Estimated vacation and sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the government-wide financial statements.

Payment of vacation and sick leave recorded in the government-wide financial statements is dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation and sick leave and compensatory absences when such payments become due.

8. Post Employment Benefits

In addition to the retirement benefits, the Town provides post-employment health insurance coverage to its retired employees and their survivors. Substantially all employees may become eligible for these benefits when they reach age 62 and have worked 10 consecutive years for the Town. Currently 78 retirees meet those eligibility requirements. The Town pays 100% of the cost of premiums to an insurance company which provides health care insurance. Expenditures for postretirement healthcare benefits are recognized as health care premiums are incurred. The Town recognized the cost of providing benefits by recording \$762,542 as its share of the insurance premiums for the currently enrolled retirees, as an expenditure in 2011.

TOWN OF GATES
Notes to Financial Statements

9. Interfund Transfers

Interfund transfers are generally recorded as operating transfers in (out) except for the following types of transactions:

- Interfund revenues, which are recorded as revenues of the performing fund and expenditures of the requesting fund.
- Reimbursements for services performed, which are recorded as a reduction of expenditures in the performing fund and an expenditure of the requesting fund.

10. Workers' Compensation Insurance

In 2006, the Town elected to become a participant in the Monroe County Municipal Workers' Compensation Plan. The Plan is an unincorporated association of municipalities in New York State formed in June 2004 pursuant to Article 5-G of General Municipal Law. By agreement, the Town is self-insured for claims up to \$200,000, shares in claims from \$200,000 to \$400,000, and the Plan provides insurance for claims in excess of \$400,000.

11. Fund Balance - Reservations and Designations

1. Fund Financial Statements

Beginning in 2011, the Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness and clarity of fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable Fund Balance** - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.
- **Restricted Fund Balance** - amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.
- **Committed Fund Balance** - amounts constrained to specific purposes by a government itself, using its highest level of decision making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the Town, the highest level of decision making authority resides with the Town Board.
- **Assigned Fund Balance** - amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Town Board delegates the authority.
- **Unassigned Fund Balance** - amounts that are available for any purpose.

TOWN OF GATES
Notes to Financial Statements

For the classification of governmental fund balances, the Town considers an expenditure to be made from budgetary appropriation first when more than one classification is available. The Town established and modifies fund balance commitments by a passage of a resolution in meetings of the Town Board. Assigned fund balance is established by the Town through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service or for other purposes). The Town Supervisor is responsible for all the purchasing activities of the Town and encumbrances at year end, which be considered assigned funds and therefore, the Town Supervisor is designated as having the authority to assign amounts intended to be used for specific purposes. The Town Board approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

The following is a summary of the Town's fund balance classifications and categories within those classifications. Restricted and assigned fund balance categories are available to the Town. Any capital gains or interest earned on restricted or assigned fund resources becomes part of the respective restricted or assigned fund balance category. While a separate bank account is not necessary for each restricted or assigned fund, a separate identity for each reserve fund must be maintained.

A. Restricted

1. Police Escrow Reserve - Represents the amount outstanding in the police escrow reserve. The reserve is accounted for in the general fund. The balance at December 31, 2011 is \$36,116.

2. Library Reserve - Represents the amount outstanding in the library reserve. The reserve is accounted for in the library fund. The balance at December 31, 2011 is \$21,642.

B. Assigned

1. Reserve for Subsequent Year - Represents the estimated fund balance that is appropriated into the adopted budget. The balance at December 31, 2011 is \$483,000.

2. Reserve for Highway - Represents the amount of outstanding fund balance in the highway fund at year end. The balance at December 31, 2011 is \$43,332.

3. Reserve for Library - Represents the amount of outstanding fund balance in the library fund at year end. The balance at December 31, 2011 is \$50,680.

4. Reserve for Lighting - Represents the amount of outstanding fund balance in the lighting fund at year end. The balance at December 31, 2011 is \$19,536.

5. Reserve for Debt Service - Represents the amount of outstanding fund balance in the debt service fund at year end. The balance at December 31, 2011 is \$601,525.

E. Property Taxes

Real property taxes are levied annually by the Town Board no later than December 31 and become a lien on January 1. Taxes are collected during the period January 1 to May 31. Uncollected real property taxes are subsequently enforced by the County of Monroe, in which the Town is located. As such, the Town receives its entire real property tax levy on a current basis.

TOWN OF GATES
Notes to Financial Statements

Note 2. Deposits and Investments

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Town is authorized to invest in certificates of deposit, time deposit accounts, obligations of New York State and the U.S. Government and repurchase agreements. At December 31, 2011, cash and cash equivalents are entirely composed of demand accounts and certificates of deposit.

Collateral is required for time deposits and certificates of deposit not covered by the federal deposit insurance. The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal government. Underlying securities must have a market value of at least 102 percent of the cost of the repurchase agreement.

Deposits

At December 31, 2011 the Town's bank balances can be categorized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and cash equivalents and investments	<u>\$ 6,359,119</u>	<u>\$ 5,997,258</u>
Collateralized with securities held by the Town or by its agent in the Town's name		\$ 4,816,550
Covered by FDIC insurance		1,134,479
Uncollateralized		<u>46,229</u>
Total deposits		<u>\$ 5,997,258</u>

TOWN OF GATES
Notes to Financial Statements

Note 3. Capital Assets

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

	<u>Restated Balance 12/31/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2011</u>
Governmental Activities Capital Assets				
Capital Assets Not Depreciated				
Land	\$ 1,284,000	\$ -	\$ -	\$ 1,284,000
Capital Assets Depreciated				
Buildings	5,590,926	-	-	5,590,926
Land improvements	606,644	-	-	606,644
Machinery and equipment	5,397,577	1,001,357	(215,674)	6,183,260
Infrastructure	<u>24,143,967</u>	<u>97,160</u>	<u>-</u>	<u>24,241,127</u>
Total capital assets depreciated	<u>35,739,114</u>	<u>1,098,517</u>	<u>(215,674)</u>	<u>36,621,957</u>
Less - Accumulated Depreciation				
Buildings	2,060,282	113,021	-	2,173,303
Land improvements	194,375	21,839	-	216,214
Machinery and equipment	3,209,081	358,819	(122,985)	3,444,915
Infrastructure	<u>12,003,284</u>	<u>374,821</u>	<u>-</u>	<u>12,378,105</u>
Total accumulated depreciation	<u>17,467,022</u>	<u>868,500</u>	<u>(122,985)</u>	<u>18,212,537</u>
Total capital assets depreciated - net	<u>18,272,092</u>	<u>230,017</u>	<u>(92,689)</u>	<u>18,409,420</u>
Governmental Activities Capital Assets - Net	<u>\$ 19,556,092</u>	<u>\$ 230,017</u>	<u>\$ (92,689)</u>	<u>\$ 19,693,420</u>

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

Governmental Activities	
General government support	\$ 81,142
Public safety	113,426
Transportation	575,556
Culture and recreation	<u>98,376</u>
Total depreciation expense	<u>\$ 868,500</u>

TOWN OF GATES
Notes to Financial Statements

Note 4. Bond Anticipation Notes Payable

Liabilities for bond anticipation notes (BAN's) are generally accounted for in the capital projects fund. The original notes are generally issued for one year. Renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. BAN's issued for capital purposes must be converted to long-term obligations within five years after the original issue date. However, BAN's issued for assessable improvement projects may be renewed for period's equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. The due dates of the BAN's listed below are in consideration of anticipated renewals.

The governmental activities had the following bond anticipation notes outstanding as of December 31, 2011:

<u>Purpose</u>	<u>Due Date / Interest Rate</u>	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>
Bond Anticipation Note - Highway Vehicles	07/11; 1.4%	\$ 151,000	\$ -	\$ 151,000	\$ -

Note 5. Bonds Payable and Other Long-term Debt

The Town borrows money in order to acquire land or equipment or construction of buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the local government. The following is a description of bonds payable as of December 31, 2011:

<u>Purpose</u>	<u>Due Date / Interest Rate</u>	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>
Public improvement serial bond (issued 1999)	06/14; 5.00%	\$ 700,000	\$ -	\$ 700,000	\$ -
Public improvement serial bond (issued 2003)	02/13; 3.30%	855,000	-	275,000	580,000
Total		<u>\$ 1,555,000</u>	<u>\$ -</u>	<u>\$ 975,000</u>	<u>\$ 580,000</u>

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 285,000	\$ 15,681	\$ 300,681
2013	295,000	5,347	300,347
Total	<u>\$ 580,000</u>	<u>\$ 21,028</u>	<u>\$ 601,028</u>

During 2011, the Town made an early paid down on the public improvement serial bond for the Justice Court Building, which had an original maturity date of June 2014.

TOWN OF GATES
Notes to Financial Statements

Changes in other long-term liabilities for the governmental activities during the fiscal year were as follows:

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2011</u>
Compensated absences	\$ 469,602	\$ 7,931	\$ -	\$ 477,533
Due to employee's retirement system	1,053,092	185,445	-	1,238,537
OPEB liability	<u>9,400,350</u>	<u>128,296</u>	-	<u>9,528,646</u>
Total	<u>\$ 10,923,044</u>	<u>\$ 321,672</u>	<u>\$ -</u>	<u>\$ 11,244,716</u>

Note 6. Interfund Receivables and Payables

Interfund balances at December 31, 2011 consisted of the following:

	<u>Amount</u> <u>Receivable</u>	<u>Amount</u> <u>Payable</u>
General fund	\$ 21,898	\$ -
Highway fund	1,320	-
Trust and agency fund	-	<u>23,218</u>
Total	<u>\$ 23,218</u>	<u>\$ 23,218</u>

Note 7. Interfund Transfers

Interfund transfers for the year ended December 31, 2011 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 71,221	\$ 537,336
Capital projects fund	47,067	71,221
Debt service fund	<u>490,269</u>	-
Total	<u>\$ 608,557</u>	<u>\$ 608,557</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move residual cash from closed projects to debt service to be used for debt payments at a later date.

Note 8. Retirement Plan

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

TOWN OF GATES
Notes to Financial Statements

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute a percentage of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulations fund.

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

	ERS	PFRS	Total
2011	\$ 444,209	\$ 554,795	\$ 999,004
2010	\$ 331,773	\$ 430,567	\$ 762,340
2009	\$ 241,726	\$ 354,143	\$ 595,869

In 2004, 2005 and 2006, the Town elected, at the permission of New York State, to pay the required minimum payment due of \$457,278, \$567,097 and \$552,116, respectively. These amounts were paid in February 2005, 2006 and 2007. The Town then elected to defer the remainder of the required payments for 2004, 2005 and 2006 which amounted to \$387,764, \$204,487 and \$106,851, respectively. The deferred portion of the payment is being amortized with New York State and is accruing interest annually at 5%. In 2009, 2010 and 2011, the remaining portion to be amortized was \$474,203, \$402,983 and \$331,764, respectively.

In 2009, 2010 and 2011, the Town elected, at the permission of New York State, to pay the required minimum payment due of \$671,515, \$866,811 and \$1,209,028, respectively. These amounts were paid in February 2010, 2011 and 2012. Overall, at December 31, 2011 the Town's financial statements reflect a total due to employees' retirement system of \$1,238,537.

Note 9. Post Employment Healthcare Plan

Plan Description - The Town provides medical benefits to active and retired police and non-police employees. Currently, health care premiums are paid to health care providers and recorded as a hospital/medical insurance expense. All full-time non-police employees are eligible to participate and retire at age 62 with 10 years of service. Upon retirement, participants and their spouses are eligible for continued medical benefits provided through the Town. No employee contributions are required. All full-time police employees are eligible to participate and to retire after 20 year of service. Upon retirement, participants and their spouses are eligible for continued medical benefits provided through the Town. No employee contributions are required. When the employee becomes eligible for Medicare, the coverage converts to a Medicare PPO plan. No employee contributions are required.

Actuarial Methods and Assumptions - The method used to calculate the costs of the Plan is known as the Entry Age Normal Actuarial Cost Method. Under this method, the valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The Normal Cost is the portion of the Actuarial Present Value attributed to employee service during the valuation year. The Actuarial Accrued Liability is the portion of the Actuarial Present Value of benefits attributed to employee service rendered prior to the valuation date. The Unfunded Actuarial Accrued Liability is amortized over 30 years as a level dollar amount. To determine the annual pension cost, the Plan's assets are determined as the accumulated of prior accruals less benefits paid.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF GATES
Notes to Financial Statements

In December 31, 2011, an actuarial valuation was performed in which the Entry Age Normal method was used. The actuarial assumptions include a 4.0% investment rate of return and an annual healthcare cost trend rate of 10.0% in 2011, reduced to an ultimate rate of 5.0% after 2022.

The actuarial value of the Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. The period used to determine amortization costs for the initial Unfunded Actuarial Accrued Liability is a level period of thirty years. As of December 31, 2011, the Other Post Employment Benefits ("OPEB") plan's unfunded accrued liability was \$16,570,665.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation to the Plan:

Annual required contribution	\$ 877,521
Interest on net OPEB obligation	376,014
Adjustment to annual required contribution	<u>(362,697)</u>
Annual OPEB cost (expense)	890,838
Contributions made	<u>(762,542)</u>
Increase in OPEB obligation - net	128,296
Net OPEB obligation - beginning	<u>9,400,350</u>
Net OPEB obligation - end of year	<u><u>\$ 9,528,646</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$ 890,838	85.6%	\$ 9,528,646
12/31/2010	\$ 4,063,087	26.0%	\$ 9,400,350
12/31/2009	\$ 4,063,087	22.4%	\$ 6,394,199

The Town's Schedule of Funding Progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/(c)</u>
1/1/2008	\$ -	\$ 35,534,510	\$ 35,534,510	- %	\$ -	- %
1/1/2008	\$ -	\$ 35,534,510	\$ 35,534,510	- %	\$ -	- %
5/1/2011	\$ -	\$ 16,570,665	\$ 16,570,665	- %	\$ -	- %

Note 10. Commitments and Contingencies

The Town is a defendant in a number of liability and assessment cases that have arisen from the normal course of Town activities. In the opinion of the Town and independent legal counsel, the ultimate disposition of all the liability matters should not have a material impact on the Town. Assessment related cases, either individual or cumulative, are also deemed by Town and independent legal counsel to be immaterial.

TOWN OF GATES
Notes to Financial Statements

Note 11. Stewardship, Compliance, Accountability

Material Violations of Finance-Related Provisions

Expenditures exceeding the budget are explained as follows:

General Fund

Expenditures for home and community services and debt principal exceeded budgeted amounts. The Town had higher than expected home and community services costs as a result of sidewalk and shade tree replacement that was double the budgeted amount. Also, the cost of moving and renovating the old library area into the new recreation center was higher than expected. The Town did not budget for the debt amortization of the NYS retirement payment which resulted in the expenditures for debt principal.

Highway Fund

Expenditures for transportation and debt principal exceeded the budgeted amount. The Town had higher than expected transportation costs due to higher than expected costs for work done on Town roads. The debt principal was over budget due to the payoff of the entire bond anticipation note as well as the Town not budgeting for the debt amortization of the NYS retirement payment which resulted in the expenditures for debt principal.

Library Fund

Expenditures for culture and recreation and debt principal exceeded the budgeted amount. The Town had higher than expected culture and recreation costs due to purchases of materials needed to open the library at their new location at 902 Elmgrove Road. Also, the Town did not budget for the debt amortization of the NYS retirement payment which resulted in the expenditures for debt principal.

Note 12. Restatement

The Town restated the capital assets to properly reflect the sale of the public safety building in the prior year. The net effect of this restatement was to decrease net assets by \$2,961,467.

TOWN OF GATES
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Real property taxes	\$ 6,028,202	\$ 6,028,202	\$ 6,050,573	\$ 22,371
Real property tax items	600,000	600,000	498,277	(101,723)
Non property tax items	1,735,000	1,735,000	2,205,077	470,077
Department income	343,000	343,000	461,171	118,171
Intergovernmental charges	10,000	10,000	30,730	20,730
Use of money and property	36,000	36,000	26,644	(9,356)
Licenses and permits	178,275	178,275	192,624	14,349
Fines and forfeitures	385,000	385,000	408,018	23,018
Sale of property and compensation for loss	15,000	15,000	140,990	125,990
Miscellaneous local sources	30,000	30,000	48,908	18,908
State aid	780,000	780,000	729,615	(50,385)
Federal aid	-	-	498	498
Total revenues	<u>10,140,477</u>	<u>10,140,477</u>	<u>10,793,125</u>	<u>652,648</u>
Other Financing Source				
Interfund transfers	-	-	71,221	71,221
Total revenues and other financing source	<u>10,140,477</u>	<u>10,140,477</u>	<u>10,864,346</u>	<u>723,869</u>
Expenditures				
General government support	2,411,119	2,411,119	2,355,538	55,581
Public safety	3,345,307	3,345,307	3,050,084	295,223
Transportation	490,207	490,207	479,932	10,275
Economic assistance and opportunity	24,303	24,303	11,635	12,668
Culture and recreation	920,702	920,702	792,000	128,702
Home and community services	106,175	106,175	142,589	(36,414)
Employee benefits	3,408,664	3,408,664	3,034,361	374,303
Debt principal	-	-	104,957	(104,957)
Total expenditures	<u>10,706,477</u>	<u>10,706,477</u>	<u>9,971,096</u>	<u>735,381</u>
Other Financing Use				
Interfund transfers	-	-	537,336	(537,336)
Total expenditures and other financing use	<u>10,706,477</u>	<u>10,706,477</u>	<u>10,508,432</u>	<u>198,045</u>
Change in Fund Balance	(566,000)	(566,000)	355,914	921,914
Fund Balance - Beginning	<u>4,252,630</u>	<u>4,252,630</u>	<u>4,252,630</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 3,686,630</u>	<u>\$ 3,686,630</u>	<u>\$ 4,608,544</u>	<u>\$ 921,914</u>

TOWN OF GATES
Budgetary Comparison Schedule
Highway Fund
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Real property taxes	\$ 2,265,837	\$ 2,265,837	\$ 2,265,837	\$ -
Intergovernmental charges	502,000	502,000	710,384	208,384
Use of money and property	3,000	3,000	3,204	204
Sale of property and compensation for loss	10,000	10,000	76,155	66,155
Miscellaneous local sources	10,000	10,000	11,846	1,846
State aid	<u>135,314</u>	<u>135,314</u>	<u>136,081</u>	<u>767</u>
Total revenues	<u>2,926,151</u>	<u>2,926,151</u>	<u>3,203,507</u>	<u>277,356</u>
Expenditures				
Transportation	2,289,191	2,289,191	2,447,757	(158,566)
Employee benefits	557,460	557,460	547,123	10,337
Debt principal	75,500	75,500	163,665	(88,165)
Debt interest	<u>4,000</u>	<u>4,000</u>	<u>2,114</u>	<u>1,886</u>
Total expenditures	<u>2,926,151</u>	<u>2,926,151</u>	<u>3,160,659</u>	<u>(234,508)</u>
Change in Fund Balance	-	-	42,848	42,848
Fund Balance - Beginning	<u>484</u>	<u>484</u>	<u>484</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 484</u>	<u>\$ 484</u>	<u>\$ 43,332</u>	<u>\$ 42,848</u>

TOWN OF GATES
Budgetary Comparison Schedule
Library Fund
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Real property taxes	\$ 1,244,403	\$ 1,244,403	\$ 1,244,402	\$ (1)
Department income	61,129	61,129	57,233	(3,896)
Use of money and property	7,685	7,685	3,693	(3,992)
Sale of property and compensation for loss	-	-	14,721	14,721
Miscellaneous local sources	1,300	1,300	109,262	107,962
State aid	-	-	<u>372,843</u>	<u>372,843</u>
Total revenues	<u>1,314,517</u>	<u>1,314,517</u>	<u>1,802,154</u>	<u>487,637</u>
Expenditures				
Culture and recreation	1,056,261	1,056,261	1,852,453	(796,192)
Employee benefits	343,306	343,306	285,495	57,811
Debt principal	-	-	<u>6,848</u>	<u>(6,848)</u>
Total expenditures	<u>1,399,567</u>	<u>1,399,567</u>	<u>2,144,796</u>	<u>(745,229)</u>
Change in Fund Balance	(85,050)	(85,050)	(342,642)	(257,592)
Fund Balance - Beginning	<u>414,964</u>	<u>414,964</u>	<u>414,964</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 329,914</u>	<u>\$ 329,914</u>	<u>\$ 72,322</u>	<u>\$ (257,592)</u>

TOWN OF GATES
Combining Balance Sheets
Other Governmental Funds
December 31, 2011

ASSETS	<u>Lighting Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
Assets				
Cash and cash equivalents - unrestricted	\$ 21,499	\$ 601,525	\$ -	\$ 623,024
Total Assets	<u>\$ 21,499</u>	<u>\$ 601,525</u>	<u>\$ -</u>	<u>\$ 623,024</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,963	\$ -	\$ -	\$ 1,963
Total liabilities	<u>1,963</u>	<u>-</u>	<u>-</u>	<u>1,963</u>
Fund Balances				
Assigned				
Reserve for lighting	19,536	-	-	19,536
Reserve for debt service	-	601,525	-	601,525
Total fund balances	<u>19,536</u>	<u>601,525</u>	<u>-</u>	<u>621,061</u>
Total Liabilities and Fund Balances	<u>\$ 21,499</u>	<u>\$ 601,525</u>	<u>\$ -</u>	<u>\$ 623,024</u>

TOWN OF GATES
Combining Statements of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2011

	<u>Lighting Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
Revenues				
Real property taxes	\$ 11,141	\$ 205,623	\$ -	\$ 216,764
Use of money and property	105	2,908	-	3,013
Total revenues	<u>11,246</u>	<u>208,531</u>	-	<u>219,777</u>
Other Financing Sources				
Interfund transfers	-	490,269	47,067	537,336
BAN redeemed from appropriations	-	-	151,000	151,000
Total revenues and other financing sources	<u>11,246</u>	<u>698,800</u>	<u>198,067</u>	<u>908,113</u>
Expenditures				
General government support	-	-	47,067	47,067
Transportation	12,245	-	-	12,245
Debt principal	-	975,000	-	975,000
Debt interest	-	49,305	-	49,305
Total expenditures	<u>12,245</u>	<u>1,024,305</u>	<u>47,067</u>	<u>1,083,617</u>
Other Financing Use				
Interfund transfers	-	-	71,221	71,221
Total expenditures and other financing use	<u>12,245</u>	<u>1,024,305</u>	<u>118,288</u>	<u>1,154,838</u>
Change in Fund Balance	(999)	(325,505)	79,779	(246,725)
Fund Balances - Beginning	<u>20,535</u>	<u>927,030</u>	<u>(79,779)</u>	<u>867,786</u>
Fund Balances - Ending	<u>\$ 19,536</u>	<u>\$ 601,525</u>	<u>\$ -</u>	<u>\$ 621,061</u>



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

To the Members of the Town Board
Town of Gates
Gates, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Gates, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the members of the Town Board, management of the Town of Gates, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
May 14, 2012

TOWN OF GATES
Schedule of Audit Findings
For the Year Ended December 31, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

TOWN OF GATES
Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2010

FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2010-1

Significant Deficiency - Restatement of Financial Statements: The government-wide financial statements for the Town of Gates required a restatement to correct the beginning other postemployment benefits (OPEB) liability recorded as of January 1, 2010 as a result of GASB 45. This restatement resulted in a material change in government-wide net assets as of December 31, 2009, the financial statements for which were issued and reported previously in our auditors' report dated April 12, 2010.

Resolution: *Procedures have been put in place to provide accurate information to calculate this liability as of December 31, 2010 and for all future years.*