

TOWN OF GATES
AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2012

TOWN OF GATES

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Gates as of December 31, 2012, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 11 and budgetary comparison information and schedule of funding progress for other postemployment benefit obligation on pages 32 - 34 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

As discussed in Note 1 to the financial statements, the Town adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Gates' basic financial statements. The supplementary schedules of combining balance sheets for non major funds, and combining schedule of revenues, expenditures and changes in fund balances for non major funds on pages 35 - 36 are presented for the purpose of additional analysis and are not a required part of the financial statements.

The supplemental schedules of combining balance sheets for non major funds, and combining schedule of revenues, expenditures and changes in fund balances for non major funds 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. 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 supplemental schedules of combining balance sheets for non major funds, combining schedule of revenues, expenditures and changes in fund balances for non major funds 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 May 1, 2013, on our consideration of the Town of Gates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Gates' internal control over financial reporting and compliance.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
May 1, 2013

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

The following is a discussion and analysis of the Town of Gates (the "Town") financial performance for the fiscal year ended December 31, 2012. 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 position increased by \$152,647 for the year ended December 31, 2012, with revenues of \$15,737,993 exceeding expenses of \$15,585,346 (including OPEB expenses of \$129,772). Total net position of the Town is \$14,267,371. During the year revenues decreased by 1.2% and expenses increased by 3.5%.
- The Town's governmental fund balances increased by \$461,405 for the year ended December 31, 2012, with revenues of \$15,808,264 exceeding expenditures of \$15,346,859. Total governmental fund balances of the Town are \$5,806,664.
- The Town elected to make an early paydown of the 2004 amortized New York State retirement deferred balance. The total amount of the pay down, including interest, was \$140,326.
- 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 \$129,772, resulting in a total liability of \$9,658,418. 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, 2012

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 position 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. 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 position and how they have changed. Net position, 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 position 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, 2012

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 Position
December 31, 2012 and 2011

	Governmental Activities		% Change
	2012	2011	
Assets			
Current assets	\$ 7,497,916	\$ 6,834,348	9.7
Capital assets	19,097,837	19,693,420	(3.0)
Total assets	26,595,753	26,527,768	0.3
Liabilities			
Other liabilities	767,347	588,328	30.4
Long-term liabilities	11,561,035	11,824,716	(2.2)
Total liabilities	12,328,382	12,413,044	(0.7)
Net Position			
Net investments in capital assets	18,802,837	19,113,420	(1.6)
Restricted	56,240	57,758	(2.6)
Unrestricted	(4,591,706)	(5,056,454)	(9.2)
Total net position	\$ 14,267,371	\$ 14,114,724	1.1

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

(Table 2)

Changes in Net Position from Operating Results
For the Years Ended December 31, 2012 and 2011

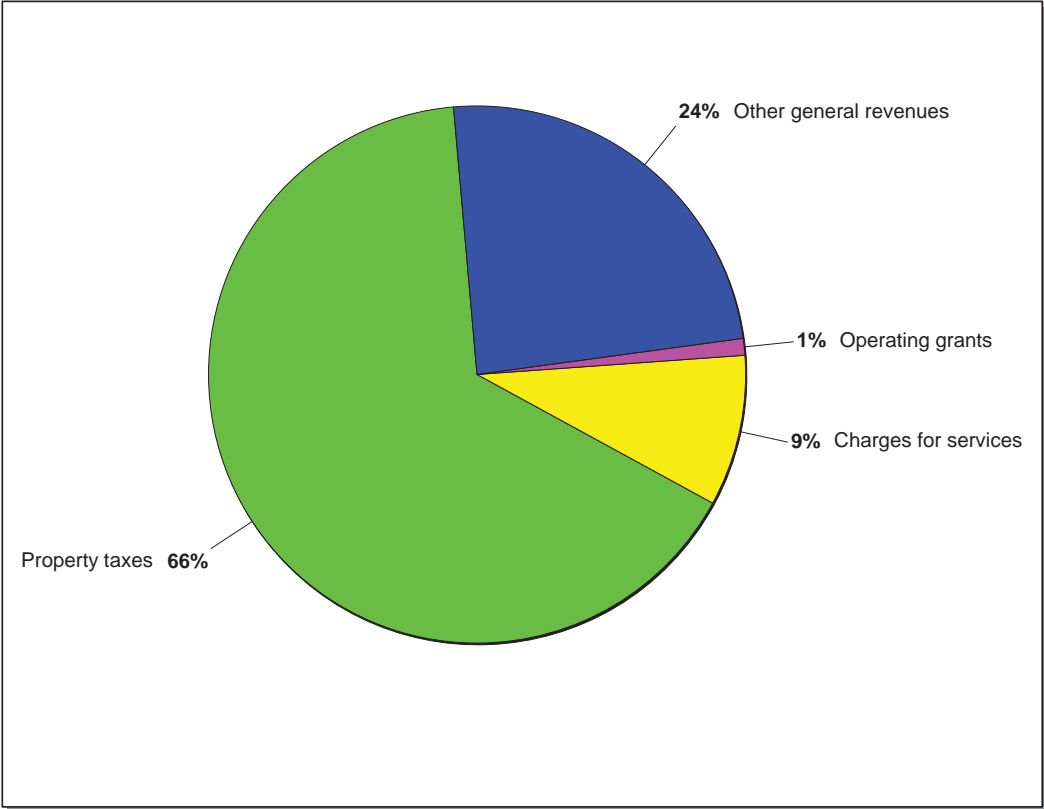
	<u>Governmental Activities</u>		<u>%</u>
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues			
Program Revenues			
Charges for services	\$ 1,457,471	\$ 1,860,160	(21.6)
Operating grants and contributions	205,141	665,050	(69.2)
General Revenues			
Real property taxes	10,363,424	9,777,576	6.0
Real property tax items	475,805	498,277	(4.5)
Non property tax items	2,456,628	2,205,077	11.4
Use of money and property	23,905	36,554	(34.6)
Sale of property and compensation for (loss) income	(26,759)	139,177	(119.2)
Miscellaneous local sources	153,246	170,016	(9.9)
State aid	<u>629,132</u>	<u>573,987</u>	9.6
Total revenues	<u>15,737,993</u>	<u>15,925,874</u>	(1.2)
Expenses			
General government support	3,269,532	3,281,277	(0.4)
Public safety	5,136,137	5,033,746	2.0
Transportation	4,383,138	3,737,302	17.3
Economic assistance	6,716	11,635	(42.3)
Culture and recreation	2,599,684	2,804,422	(7.3)
Home and community services	174,848	149,359	17.1
Debt interest	<u>15,291</u>	<u>46,407</u>	(67.1)
Total expenses	<u>15,585,346</u>	<u>15,064,148</u>	3.5
Change in Net Position	<u>\$ 152,647</u>	<u>\$ 861,726</u>	(82.3)

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

As reported in the statement of activities the cost of all governmental activities was \$15,585,346. However, the amount that taxpayers ultimately financed for these activities through the Town real property taxes was \$10,363,424.

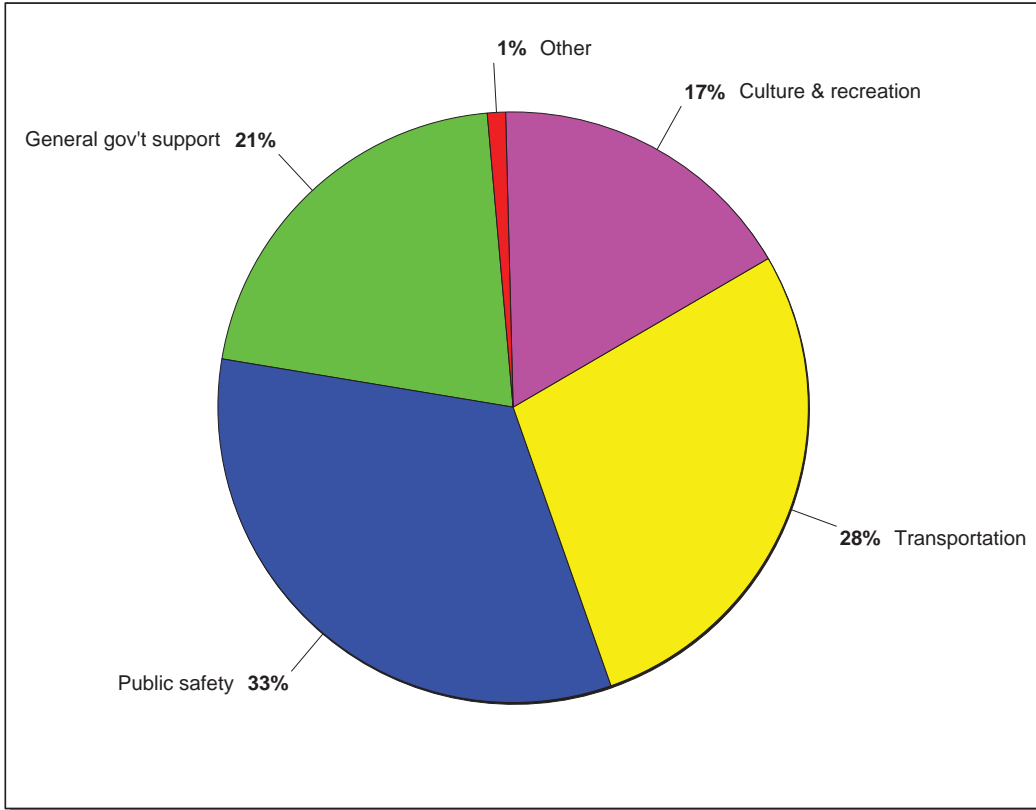
Tables 3-A&B show the revenues and expenses on a percentage basis for the governmental activities:

Table 3-A
Sources of Revenues for Governmental Activities
Fiscal Year 2012



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

Table 3-B
Expenses for Governmental Activities
Fiscal Year 2012



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 2012</u>	<u>Net Cost of Services 2012</u>	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>
General government support	\$ 3,269,532	\$ 3,019,648	\$ 3,281,277	\$ 2,931,460
Public safety	5,136,137	4,687,767	5,033,746	4,528,313
Transportation	4,383,138	3,860,913	3,737,302	2,890,837
Economic assistance	6,716	6,716	11,635	11,635
Culture and recreation	2,599,684	2,167,401	2,804,422	1,995,647
Home and community services	174,848	164,998	149,359	134,639
Debt interest	15,291	15,291	46,407	46,407
Total expenses	<u>\$ 15,585,346</u>	<u>\$ 13,922,734</u>	<u>\$ 15,064,148</u>	<u>\$ 12,538,938</u>

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

- **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 \$15,808,264 and expenditures and other financing uses of \$15,346,859. The fund balance in the general fund increased by \$635,638 increasing the fund balance to \$5,244,182 at December 31, 2012. In the highway fund, the fund balance increased by \$32,242 increasing the fund balance to \$75,574. The fund balance in the other governmental funds decreased by \$206,475 decreasing the fund balance to \$486,908, for a total increase of \$461,405 for all government funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Revenues - Actual revenues exceeded budgeted revenues by \$502,878. This is mostly explained by the sales tax revenue. The region has experienced an improved economy and an increase of gasoline prices driving up sales tax revenues.
- Expenditures - budgeted expenditures exceeded actual expenditures by \$615,760. The majority of the difference is explained by the police department not hiring two additional officers, lower overtime in the police department, lower medical insurance and a lower than expected premium for worker's compensation due to lower incidents.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the governmental activities of the Town had \$37,872,775 invested in land, buildings, land improvements, infrastructure, and machinery and equipment. Depreciation expense of \$865,985 has been recorded in the current year. The current net book value is \$19,097,837.

Table 5 shows the fiscal 2012 and 2011 balances for the major classes of assets:

(Table 5)

Capital Assets (Net of Depreciation)
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Land	\$ 1,284,000	\$ 1,284,000	-
Buildings	3,304,602	3,417,623	(3.3)
Land improvements	368,591	390,430	(5.6)
Machinery and equipment	2,554,307	2,738,345	(6.7)
Infrastructure	<u>11,586,337</u>	<u>11,863,022</u>	(2.3)
Total	<u>\$ 19,097,837</u>	<u>\$ 19,693,420</u>	(3.0)

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

Long Term Debt

At December 31, 2012, the Town had total long-term debt of \$11,561,035 outstanding which was a decrease of \$263,681 from the previous year.

(Table 6)

Outstanding Debt
December 31, 2012 and 2011

Governmental Activities	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Bonds payable	\$ 295,000	\$ 580,000	(49.1)
Compensated absences	518,025	477,533	8.5
Due to employee's retirement system	1,089,592	1,238,537	(12.0)
OPEB liability	<u>9,658,418</u>	<u>9,528,646</u>	1.4
Total	<u>\$ 11,561,035</u>	<u>\$ 11,824,716</u>	(2.2)

The Town maintains a Aa3 bond rating according to Moody's as of December 31, 2012.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The tax base of the Town has remained stable. The 2013 budget provides for real estate tax revenues of \$9,677,421, which is similar to \$9,721,501 budgeted in 2012. The budget provides for debt service payments of \$300,347 of which \$295,000 will be used for long term debt principal payments.
- The economic outlook for the Town is optimistic. The Town is experiencing new businesses moving into the town, residential developments including a multi-million dollar development at the canal bordering Greece. The Town is looking forward to continued growth in the community and a five year capital plan that is looking to make improvements in the Town with the current fund balances while keeping the tax rate stable.

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:

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

TOWN OF GATES
Statement of Net Position
December 31, 2012

	Primary Government	Governmental Activities
Assets		
Cash and cash equivalents - unrestricted	\$ 6,629,942	
Other receivables - net	97,533	
Due from other governments	662,738	
Investments	51,463	
Cash and cash equivalents - restricted	56,240	
Capital assets		
Capital assets not depreciated	1,284,000	
Capital assets - net of depreciation	<u>17,813,837</u>	
Total assets	<u>26,595,753</u>	
Liabilities		
Accounts payable	386,196	
Accrued liabilities	113,367	
Contract advances	267,784	
Long-term liabilities		
Portion due or payable within one year		
Bonds payable	295,000	
Compensated absences	51,083	
Due to employees' retirement system	967,970	
Portion due or payable after one year		
Compensated absences	466,942	
Due to employee's retirement system	121,622	
OPEB liability	<u>9,658,418</u>	
Total liabilities	<u>12,328,382</u>	
Net Position		
Investment in capital assets - net of related debt		18,802,837
Restricted for		
Police escrow reserve		34,541
Library reserve		21,699
Unrestricted		<u>(4,591,706)</u>
Total net position		<u>\$ 14,267,371</u>

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

TOWN OF GATES
Statement of Activities
For the Year Ended December 31, 2012

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
<u>Functions/Programs</u>					
Primary Government					Primary Government
Governmental activities					Governmental Activities
General government support	\$ 3,269,532	\$ 249,884	-	-	\$ (3,019,648)
Public safety	5,136,137	387,094	61,276	-	(4,687,767)
Transportation	4,383,138	386,180	136,045	-	(3,860,913)
Economic assistance	6,716	-	-	-	(6,716)
Culture and recreation	2,599,684	424,463	7,820	-	(2,167,401)
Home and community services	174,848	9,850	-	-	(164,998)
Debt interest	<u>15,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,291)</u>
Total primary government	<u>\$ 15,585,346</u>	<u>\$ 1,457,471</u>	<u>\$ 205,141</u>	<u>\$ -</u>	<u>(13,922,734)</u>
General Revenues					
Real property taxes					10,363,424
Real property tax items					475,805
Non property tax items					2,456,628
Use of money and property					23,905
Sale of property and compensation for loss					(26,759)
Miscellaneous local sources					153,246
State aid					629,132
Total general revenues					<u>14,075,381</u>
Change in Net Position					152,647
Net Position - Beginning					<u>14,114,724</u>
Net Position - Ending					<u>\$ 14,267,371</u>

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

TOWN OF GATES
Balance Sheets
Governmental Funds
December 31, 2012

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets				
Cash and cash equivalents - unrestricted	\$ 5,812,179	\$ 304,794	\$ 512,969	\$ 6,629,942
Other receivables - net	96,134	1,399	-	97,533
Due from other funds	21,898	1,320	-	23,218
Due from other governments	565,999	73,521	-	639,520
Investments	-	-	51,463	51,463
Cash and cash equivalents - restricted	<u>34,541</u>	<u>-</u>	<u>21,699</u>	<u>56,240</u>
Total Assets	\$ 6,530,751	\$ 381,034	\$ 586,131	\$ 7,497,916
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 253,556	\$ 83,710	\$ 48,930	\$ 386,196
Accrued liabilities	42,333	59,402	9,582	111,317
Contract advances	178,716	89,068	-	267,784
Due to employees' retirement system	811,964	73,280	40,711	925,955
Total liabilities	<u>1,286,569</u>	<u>305,460</u>	<u>99,223</u>	<u>1,691,252</u>
Fund Balances				
Restricted				
Reserve for police escrow	34,541	-	-	34,541
Reserve for library	-	-	21,699	21,699
Assigned				
Reserve for subsequent year	826,929	-	-	826,929
Reserve for highway	-	75,574	-	75,574
Reserve for library	-	-	143,786	143,786
Reserve for special districts	-	-	19,734	19,734
Reserve for debt service	-	-	301,689	301,689
Unassigned	4,382,712	-	-	4,382,712
Total fund balances	<u>5,244,182</u>	<u>75,574</u>	<u>486,908</u>	<u>5,806,664</u>
Total Liabilities and Fund Balances	\$ 6,530,751	\$ 381,034	\$ 586,131	\$ 7,497,916

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 Position
December 31, 2012

Total governmental fund balances		\$ 5,806,664
Amounts reported for governmental activities in the statement of net position 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>	1,284,000
Total capital assets not depreciated		
Buildings	5,590,926	
Land improvements	606,644	
Machinery and equipment	6,054,768	
Infrastructure	<u>24,336,437</u>	
Total depreciable assets	36,588,775	
Less accumulated depreciation	<u>(18,774,938)</u>	
Total capital assets, net of depreciation		17,813,837
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	(163,637)	
Bonds payable	(295,000)	
Compensated absences	(518,025)	
OPEB liability	<u>(9,658,418)</u>	
Total liabilities		(10,635,080)
Other differences		
Accrued liabilities	<u>(2,050)</u>	
Total other differences		<u>(2,050)</u>
Net position of governmental activities		<u>\$ 14,267,371</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, 2012

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Real property taxes	\$ 6,046,326	\$ 2,270,481	\$ 2,046,617	\$ 10,363,424
Real property tax items	475,805	-	-	475,805
Non property tax items	2,456,628	-	-	2,456,628
Department income	427,218	-	67,967	495,185
Intergovernmental charges	50,978	386,180	-	437,158
Use of money and property	17,713	3,443	2,749	23,905
Licenses and permits	151,250	-	-	151,250
Fines and forfeitures	373,878	-	-	373,878
Sale of property and compensation for (loss) income	21,936	21,012	564	43,512
Miscellaneous local sources	39,150	68,781	45,315	153,246
State aid	690,408	136,045	7,820	834,273
Total revenues	<u>10,751,290</u>	<u>2,885,942</u>	<u>2,171,032</u>	<u>15,808,264</u>
Expenditures				
General government support	2,337,163	-	-	2,337,163
Public safety	3,107,718	-	-	3,107,718
Transportation	458,071	2,329,525	615,602	3,403,198
Economic assistance and opportunity	6,716	-	-	6,716
Culture and recreation	749,548	-	1,132,836	1,882,384
Home and community services	167,930	-	-	167,930
Employee benefits	3,063,141	519,672	325,697	3,908,510
Debt principal	221,794	4,503	287,690	513,987
Debt interest	3,571	-	15,682	19,253
Total expenditures	<u>10,115,652</u>	<u>2,853,700</u>	<u>2,377,507</u>	<u>15,346,859</u>
Change in Fund Balance	635,638	32,242	(206,475)	461,405
Fund Balances - Beginning	<u>4,608,544</u>	<u>43,332</u>	<u>693,383</u>	<u>5,345,259</u>
Fund Balances - Ending	<u>\$ 5,244,182</u>	<u>\$ 75,574</u>	<u>\$ 486,908</u>	<u>\$ 5,806,664</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, 2012

Net change in fund balances - total governmental funds		\$ 461,405
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	340,673	
Depreciation expense	<u>(865,985)</u>	
Excess of depreciation over capital outlay		(525,312)
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 position. In the current period, these amounts are the following		
Debt repayments		285,000
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		(40,492)
OPEB liability		(129,772)
Other differences		
Accrued liabilities	3,962	
Retirement system	168,127	
Loss on disposition of assets	<u>(70,271)</u>	
Total other differences		<u>101,818</u>
Change in net position of governmental activities		<u>\$ 152,647</u>

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

TOWN OF GATES
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents - restricted	\$ 1,100,979
Total assets	<u>\$ 1,100,979</u>
LIABILITIES	
Agency liabilities	\$ 305,296
Due to other funds	23,218
Due to other governments	<u>772,465</u>
Total liabilities	<u>\$ 1,100,979</u>

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

TOWN OF GATES
Notes to 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 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, 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 position 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.

Beginning in 2012, the Town adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements provide guidance on presenting deferred outflows, deferred inflows and net position. Net position represent assets and deferred outflows of resources less liabilities and deferred inflows of resources. GASB requires the classification of net position into three classifications defined as follows:

TOWN OF GATES
Notes to Financial Statements

Net investment in capital assets - This component of net position consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - This component of net position is considered restricted if the use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. At December 31, 2012, the Town had \$56,240 in restricted net position.

Unrestricted net position - This component of net position consists of all other net position that does not meet the definition of the above two components and is available for general use by the agency.

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.

- 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, 2012, 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.

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.

TOWN OF GATES
Notes to Financial Statements

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 and ambulance district.

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.

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.

Beginning in 2012, the Town adopted the provisions of GASB Statement No, 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature.

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:

TOWN OF GATES
Notes to Financial Statements

- 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.

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.

TOWN OF GATES
Notes to Financial Statements

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</u> <u>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 77 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 \$761,066 as its share of the insurance premiums for the currently enrolled retirees, as an expenditure in 2012.

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 are 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 cash balance outstanding in the police escrow reserve. The reserve is accounted for in the general fund. The balance at December 31, 2012 is \$34,541.

2. Library Reserve - Represents the cash balance outstanding in the library reserve. The reserve is accounted for in the library fund. The balance at December 31, 2012 is \$21,699.

B. Assigned

1. Reserve for Subsequent Year - Represents the estimated fund balance that is appropriated into the adopted budget. The balance at December 31, 2012 is \$826,929.

2. Reserve for Highway - Represents the amount of outstanding fund balance in the highway fund at year end. The balance at December 31, 2012 is \$75,574.

3. Reserve for Library - Represents the amount of outstanding fund balance in the library fund at year end. The balance at December 31, 2012 is \$143,786.

4. Reserve for Special Districts - Represents the amount of outstanding fund balance in the special districts fund at year end. The balance at December 31, 2012 is \$19,734.

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, 2012 is \$301,689.

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, 2012, cash and cash equivalents are entirely composed of demand accounts and certificates of deposit and the investments are composed of an endowment blended fund.

Collateral is required for time deposits and certificates of deposit not covered by 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, 2012, 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>\$ 7,838,624</u>	<u>\$ 7,860,932</u>
Collateralized with securities held by the Town or by its agent in the Town's name		\$ 5,584,149
Covered by FDIC insurance		1,996,809
Uncollateralized*		<u>279,974</u>
Total deposits		<u>\$ 7,860,932</u>

* The uncollateralized amount represents a large deposit made on December 31, 2012. The bank has twenty-four hours to handle large collateral changes and, therefore, this was a timing difference at year end.

TOWN OF GATES
Notes to Financial Statements

Note 3. Capital Assets

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

	<u>Balance 1/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2012</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	6,183,260	245,363	(373,855)	6,054,768
Infrastructure	<u>24,241,127</u>	<u>95,310</u>	<u>-</u>	<u>24,336,437</u>
Total capital assets depreciated	<u>36,621,957</u>	<u>340,673</u>	<u>(373,855)</u>	<u>36,588,775</u>
Less - Accumulated Depreciation				
Buildings	2,173,303	113,021	-	2,286,324
Land improvements	216,214	21,839	-	238,053
Machinery and equipment	3,444,915	359,130	(303,584)	3,500,461
Infrastructure	<u>12,378,105</u>	<u>371,995</u>	<u>-</u>	<u>12,750,100</u>
Total accumulated depreciation	<u>18,212,537</u>	<u>865,985</u>	<u>(303,584)</u>	<u>18,774,938</u>
Total capital assets depreciated - net	<u>18,409,420</u>	<u>(525,312)</u>	<u>(70,271)</u>	<u>17,813,837</u>
Governmental Activities Capital Assets - Net	<u>\$ 19,693,420</u>	<u>\$ (525,312)</u>	<u>\$ (70,271)</u>	<u>\$ 19,097,837</u>

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

Governmental Activities	
General government support	\$ 88,773
Public safety	113,154
Transportation	564,940
Culture and recreation	<u>99,118</u>
Total depreciation expense	<u>\$ 865,985</u>

TOWN OF GATES
Notes to Financial Statements

Note 4. Bonds Payable and Other Long-term Debt

The Town borrows money in order to acquire land, equipment, 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 Town. The following is a description of bonds payable as of December 31, 2012:

<u>Purpose</u>	<u>Due Date / Interest Rate</u>	<u>Balance 1/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2012</u>
Public improvement serial bond (issued 2003)	02/13; 3.30%	\$ 580,000	\$ -	\$ 285,000	\$ 295,000

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 295,000	\$ 5,347	\$ 300,347

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

	<u>Balance 1/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2012</u>
Compensated absences	\$ 477,533	\$ 40,492	\$ -	\$ 518,025
Due to employee's retirement system	1,238,537	-	148,945	1,089,592
OPEB liability	9,528,646	129,772	-	9,658,418
Total	<u>\$ 11,244,716</u>	<u>\$ 170,264</u>	<u>\$ 148,945</u>	<u>\$ 11,266,035</u>
Due in one year				\$ 1,019,053
Due in more than one year				10,246,982
Total				<u>\$ 11,266,035</u>

Note 5. Interfund Receivables and Payables

Interfund balances at December 31, 2012, consisted of the following:

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

TOWN OF GATES
Notes to Financial Statements

Note 6. Retirement Plan

Plan Description

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 found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing New York State and Local Retirement Systems, Gov. Alfred E. Smith, State Office Building, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

	<u>ERS</u>		<u>PFRS</u>		<u>Total</u>
2012	\$ 520,992	\$	614,987	\$	1,135,979
2011	\$ 444,209	\$	554,795	\$	999,004
2010	\$ 331,773	\$	430,567	\$	762,340

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 2010, 2011 and 2012, the remaining portion to be amortized was \$402,983, \$331,764 and \$163,638, respectively. In 2012, the Town elected to paydown the entire remaining balance of the 2004 amount.

In 2010, 2011 and 2012, the Town elected, at the permission of New York State, to pay the required minimum payment due of \$866,811, \$1,209,028 and \$1,234,608, respectively. These amounts were paid in February 2011, 2012 and 2013. Overall, at December 31, 2012, the Town's financial statements reflect a total due to employees' retirement system of \$1,089,592.

TOWN OF GATES
Notes to Financial Statements

Note 7. 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.

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 2012, 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, 2012, the Other Post Employment Benefits ("OPEB") plan's unfunded accrued liability was \$15,920,639.

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>(761,066)</u>
Increase in OPEB obligation - net		129,772
Net OPEB obligation - beginning		<u>9,528,646</u>
Net OPEB obligation - end of year	\$	<u>9,658,418</u>

TOWN OF GATES
Notes to Financial Statements

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 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>
12/31/2012	\$ 890,838	85.4%	\$ 9,658,418
12/31/2011	\$ 890,838	85.6%	\$ 9,528,646
12/31/2010	\$ 4,063,087	26.0%	\$ 9,400,350

Note 8. Risk Management

The Town is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

Note 9. 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.

Note 10. 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 and interest exceeded budgeted amounts. The Town had higher than expected home and community services costs as a result of the upgrade of the old library to the new recreation center in the Town hall. There were costs that were not included in the budget that were necessary for the recreation department. Included in this was the counter, an additional opening in the side wall and carpeting which was budgeted for in 2011 however the actual expenses were incurred in the beginning of 2012. The Town also did not budget for the debt amortization of the NYS retirement payment which resulted in the expenditures for debt principal and interest.

Highway Fund

Expenditures for debt principal exceeded the budgeted amount. The debt principal was over budget due to the fact that the Town did not budget for the debt amortization of the NYS retirement payment which resulted in the expenditures for debt principal.

TOWN OF GATES
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Real property taxes	\$ 6,020,137	\$ 6,020,137	\$ 6,046,326	\$ 26,189
Real property tax items	605,000	605,000	475,805	(129,195)
Non property tax items	1,880,000	1,880,000	2,456,628	576,628
Department income	362,000	362,000	427,218	65,218
Intergovernmental charges	54,275	54,275	50,978	(3,297)
Use of money and property	26,000	26,000	17,713	(8,287)
Licenses and permits	134,000	134,000	151,250	17,250
Fines and forfeitures	385,000	385,000	373,878	(11,122)
Sale of property and compensation for loss	15,000	15,000	21,936	6,936
Miscellaneous local sources	30,000	30,000	39,150	9,150
State aid	<u>737,000</u>	<u>737,000</u>	<u>690,408</u>	<u>(46,592)</u>
Total revenues	<u>10,248,412</u>	<u>10,248,412</u>	<u>10,751,290</u>	<u>502,878</u>
Expenditures				
General government support	2,451,049	2,451,049	2,337,163	113,886
Public safety	3,477,913	3,477,913	3,107,718	370,195
Transportation	499,383	499,383	458,071	41,312
Economic assistance and opportunity	24,303	24,303	6,716	17,587
Culture and recreation	799,223	799,223	749,548	49,675
Home and community services	105,346	105,346	167,930	(62,584)
Employee benefits	3,374,195	3,374,195	3,063,141	311,054
Debt principal	-	-	221,794	(221,794)
Debt interest	-	-	3,571	(3,571)
Total expenditures	<u>10,731,412</u>	<u>10,731,412</u>	<u>10,115,652</u>	<u>615,760</u>
Change in Fund Balance	(483,000)	(483,000)	635,638	1,118,638
Fund Balance - Beginning	<u>4,608,544</u>	<u>4,608,544</u>	<u>4,608,544</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 4,125,544</u>	<u>\$ 4,125,544</u>	<u>\$ 5,244,182</u>	<u>\$ 1,118,638</u>

TOWN OF GATES
Budgetary Comparison Schedule
Highway Fund
For the Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Real property taxes	\$ 2,270,481	\$ 2,270,481	\$ 2,270,481	\$ -
Intergovernmental charges	502,000	502,000	386,180	(115,820)
Use of money and property	2,000	2,000	3,443	1,443
Sale of property and compensation for loss	-	-	21,012	21,012
Miscellaneous local sources	20,000	20,000	68,781	48,781
State aid	<u>135,314</u>	<u>135,314</u>	<u>136,045</u>	<u>731</u>
Total revenues	<u>2,929,795</u>	<u>2,929,795</u>	<u>2,885,942</u>	<u>(43,853)</u>
Expenditures				
Transportation	2,350,637	2,350,637	2,329,525	21,112
Employee benefits	579,158	579,158	519,672	59,486
Debt principal	<u>-</u>	<u>-</u>	<u>4,503</u>	<u>(4,503)</u>
Total expenditures	<u>2,929,795</u>	<u>2,929,795</u>	<u>2,853,700</u>	<u>76,095</u>
Change in Fund Balance	-	-	32,242	32,242
Fund Balance - Beginning	<u>43,332</u>	<u>43,332</u>	<u>43,332</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 43,332</u>	<u>\$ 43,332</u>	<u>\$ 75,574</u>	<u>\$ 32,242</u>

TOWN OF GATES
Schedule of Funding Progress for Other Postemployment Benefits Obligation
For the Year Ended December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2008	\$ -	\$ 35,534,510	\$ 35,534,510	- %	\$ -	- %
12/31/2011	\$ -	\$ 16,570,665	\$ 16,570,665	- %	\$ -	- %
12/31/2011	\$ -	\$ 15,920,639	\$ 15,920,639	- %	\$ -	- %

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
12/31/2012	\$ 877,521	86.7%
12/31/2011	\$ 877,521	86.9%
12/31/2010	\$ 3,906,814	27.0%

TOWN OF GATES
Combining Balance Sheets
Other Governmental Funds
December 31, 2012

ASSETS	<u>Library Fund</u>	<u>Special Districts Fund</u>	<u>Debt Service Fund</u>	<u>Total Other Governmental Funds</u>
Assets				
Cash and cash equivalents - unrestricted	\$ 190,541	\$ 20,739	\$ 301,689	\$ 512,969
Investments	51,463	-	-	51,463
Cash and cash equivalents - restricted	<u>21,699</u>	<u>-</u>	<u>-</u>	<u>21,699</u>
Total Assets	<u>\$ 263,703</u>	<u>\$ 20,739</u>	<u>\$ 301,689</u>	<u>\$ 586,131</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 47,925	\$ 1,005	\$ -	\$ 48,930
Accrued liabilities	9,582	-	-	9,582
Due to employees' retirement system	<u>40,711</u>	<u>-</u>	<u>-</u>	<u>40,711</u>
Total liabilities	<u>98,218</u>	<u>1,005</u>	<u>-</u>	<u>99,223</u>
Fund Balances				
Restricted				
Reserve for library	21,699	-	-	21,699
Assigned				
Reserve for library	143,786	-	-	143,786
Reserve for lighting	-	19,734	-	19,734
Reserve for debt service	<u>-</u>	<u>-</u>	<u>301,689</u>	<u>301,689</u>
Total fund balances	<u>165,485</u>	<u>19,734</u>	<u>301,689</u>	<u>486,908</u>
Total Liabilities and Fund Balances	<u>\$ 263,703</u>	<u>\$ 20,739</u>	<u>\$ 301,689</u>	<u>\$ 586,131</u>

TOWN OF GATES
Combining Statements of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2012

	<u>Library Fund</u>	<u>Special Districts Fund</u>	<u>Debt Service Fund</u>	<u>Total Other Governmental Funds</u>
Revenues				
Real property taxes	\$ 1,430,883	\$ 615,734	\$ -	\$ 2,046,617
Department income	67,967	-	-	67,967
Use of money and property	1,837	66	846	2,749
Sale of property and compensation for loss	564	-	-	564
Miscellaneous local sources	45,315	-	-	45,315
State aid	<u>7,820</u>	<u>-</u>	<u>-</u>	<u>7,820</u>
Total revenues	<u>1,554,386</u>	<u>615,800</u>	<u>846</u>	<u>2,171,032</u>
Expenditures				
Transportation	-	615,602	-	615,602
Culture and recreation	1,132,836	-	-	1,132,836
Employee benefits	325,697	-	-	325,697
Debt principal	2,690	-	285,000	287,690
Debt interest	<u>-</u>	<u>-</u>	<u>15,682</u>	<u>15,682</u>
Total expenditures	<u>1,461,223</u>	<u>615,602</u>	<u>300,682</u>	<u>2,377,507</u>
Change in Fund Balance	93,163	198	(299,836)	(206,475)
Fund Balances - Beginning	<u>72,322</u>	<u>19,536</u>	<u>601,525</u>	<u>693,383</u>
Fund Balances - Ending	<u>\$ 165,485</u>	<u>\$ 19,734</u>	<u>\$ 301,689</u>	<u>\$ 486,908</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

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Town of Gates as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town of Gates' basic financial statements, and have issued our report thereon dated May 1, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Gates' 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*.

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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
May 1, 2013

TOWN OF GATES
Schedule of Audit Findings
For the Year Ended December 31, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE