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Village of Hamburg, New York

BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
MAY 31, 2012

*Amato
Fox*

Certified Public Accountants

VILLAGE OF HAMBURG, NEW YORK

**BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED MAY 31, 2012

VILLAGE OF HAMBURG, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

Honorable Village Board
Village of Hamburg
Hamburg, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Hamburg, New York as of and for the year ended May 31, 2012, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Hamburg, New York's management. 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Hamburg, New York, as of May 31, 2012, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONT.)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2012, on our consideration of the Village of Hamburg, New York'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 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 25 through 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Amato, Fox & Company PC

August 29, 2012

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VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

This section of the Village of Hamburg's (the "Village") annual financial report presents a discussion and analysis of the Village's financial performance during the fiscal year ended May 31, 2012. Please read it in conjunction with the Village's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the Village exceeded liabilities at the close of the 2012 fiscal year by \$23,923,048 (net assets). Of this amount, \$1,364,904 is restricted for specific purpose (restricted net assets), and \$20,277,756 is invested in capital assets, net of related debt.
- The government's total net assets increased by \$318,976.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,607,305 or 58.0% of total general fund balance. The amount of \$341,910 is designated for subsequent year's expenditures within the 2013 fiscal year budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - *Management's Discussion and Analysis* (this section), and the *Basic Financial Statements*.

Basic Financial Statements

Governmental-Wide Financial Statements are two statements designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all Village assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net asset may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *Statement of Activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., unallocated taxes and earned but unused vacation leave).

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

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

The government-wide financial statements can be found on pages 16 through 18 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate finance related legal compliance. All funds of the Village can be divided into three categories: governmental funds, proprietary funds and fiduciary fund.

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

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

The Village maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Sewer Fund, and the Capital Projects Fund.

The Village adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 19 through 26 of this report.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

Proprietary Funds: The Village of Hamburg maintains an enterprise fund, which is used to report the same function, presented as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for its municipal natural gas system.

The proprietary fund financial statements can be found on pages 27 through 29 of this report.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's own programs. The Village has one fiduciary fund, the Agency Fund, which is used to account for funds held by the Village as agent for employees' withholdings, monies due to other governments, and other miscellaneous items.

The fiduciary fund financial statement can be found on page 30 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes can be found on pages 31 through 62 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$23,923,048 at the close of the most recent fiscal year.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

Summary of Village of Hamburg's Net Assets

	Governmental Activities		Business Type Activities		Total	
	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011
Current and other assets	\$ 8,765,270	\$ 6,104,077	\$ 38,522	\$ 152,206	\$ 8,803,792	\$ 6,256,283
Capital assets	28,152,756	28,142,525	-	-	28,152,756	28,142,525
Total assets	<u>36,918,026</u>	<u>34,246,602</u>	<u>38,522</u>	<u>152,206</u>	<u>36,956,548</u>	<u>34,398,808</u>
Long-term liabilities	7,649,271	7,671,644	-	-	7,649,271	7,671,644
Other liabilities	5,250,704	2,884,013	133,525	239,079	5,384,229	3,123,092
Total Liabilities	<u>12,899,975</u>	<u>10,555,657</u>	<u>133,525</u>	<u>239,079</u>	<u>13,033,500</u>	<u>10,794,736</u>
Net assets:						
Investment in capital assets, net of related debt	20,277,756	23,602,525	-	-	20,277,756	23,602,525
Restricted	1,364,904	848,233	-	-	1,364,904	848,233
Unrestricted	2,166,642	(759,813)	(95,003)	(86,873)	2,071,639	(846,686)
Total net assets	<u>\$ 23,809,302</u>	<u>\$ 23,690,945</u>	<u>\$ (95,003)</u>	<u>\$ (86,873)</u>	<u>\$ 23,714,299</u>	<u>\$ 23,604,072</u>

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

The largest portion of the Village's net assets of \$20,277,756 reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the Village's net assets of \$1,364,904 represents resources that are subject to external restrictions on how they may be used.

The remaining balance of the Village's net assets represents unrestricted net assets of \$2,071,639.

Government-wide activities increased the Village's net assets by \$318,976. Governmental activities increased net assets by \$327,106 and business-type activities decreased net assets by \$8,130.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

The following table indicates the changes in net assets:

Summary of Village of Hamburg's Changes in Net Assets

Revenues:	Governmental Activities		Business Type Activities		Total	
	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>May 31, 2012</u>	<u>May 31, 2010</u>
Program revenues:						
Charges for services	\$ 577,883	\$ 534,777	\$ 318,450	\$ 655,070	\$ 896,333	\$ 1,189,847
Operating grants and contributions	275,684	128,978	-	-	275,684	128,978
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	5,961,434	5,619,519	-	-	5,961,434	5,619,519
Real property tax items	105,396	183,964	-	-	105,396	183,964
Non-property tax items	1,255,923	1,267,243	-	-	1,255,923	1,267,243
Use of money and property	204,846	190,403	14	32	204,860	190,435
Sale of property and compensation for loss	83,089	31,432	-	-	83,089	31,432
State Aid	192,253	215,457	-	-	192,253	215,457
Miscellaneous	30,771	29,009	-	-	30,771	29,009
Total revenues	<u>8,687,279</u>	<u>8,200,782</u>	<u>318,464</u>	<u>655,102</u>	<u>9,005,743</u>	<u>8,855,884</u>

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

Summary of Village of Hamburg's Changes in Net Assets (Concl.)

	Governmental Activities		Business Type Activities		Total	
	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>May 31, 2012</u>	<u>May 31, 2011</u>
Expenses:						
General government support	\$ 1,822,714	\$ 1,804,947	\$ -	\$ -	\$ 1,822,714	\$ 1,804,947
Public safety	2,682,498	2,670,480	-	-	2,682,498	2,670,480
Health	7,981	8,545	-	-	7,981	8,545
Transportation	2,034,192	2,182,299	-	-	2,034,192	2,182,299
Culture and Recreation	987,304	986,258	-	-	987,304	986,258
Home and community services	743,210	657,419	326,594	737,269	1,069,804	1,394,688
Unallocated Interest and fiscal charges	<u>172,274</u>	<u>246,148</u>	<u>-</u>	<u>-</u>	<u>172,274</u>	<u>246,148</u>
Total expenses	<u>8,450,173</u>	<u>8,556,096</u>	<u>326,594</u>	<u>737,269</u>	<u>8,776,767</u>	<u>9,293,365</u>
Change in net assets	327,106	(355,314)	(8,130)	(72,167)	318,976	(427,481)
Net assets - beginning	<u>23,690,945</u>	<u>24,046,259</u>	<u>(86,873)</u>	<u>(14,706)</u>	<u>24,031,553</u>	<u>24,165,516</u>
Net assets - ending	<u>\$ 24,018,051</u>	<u>\$ 23,690,945</u>	<u>\$ (95,003)</u>	<u>\$ (86,873)</u>	<u>\$ 23,923,048</u>	<u>\$ 23,604,072</u>

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As noted earlier, the Village uses *fund accounting* to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The general governmental functions are contained in the General and Capital Projects. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At May 31, 2012, the Village's governmental funds reported combined fund balances of \$3,516,099. The combined fund balances, \$313,607 constitutes *non-spendable fund balance*, \$395,392 is restricted, and \$199,795 is assigned.

The General Fund is the chief operating fund of the Village. At May 31, 2012, unassigned fund balance of the General Fund was \$2,607,305, while total fund balance reached \$3,516,099. As a measure of General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33.3% of total fund expenditures, while total fund balance also represents 57.4% of that same amount.

Revenues for governmental functions totaled \$8,777,279 in fiscal year ended May 31, 2012, which represents an increase of 7.0% from fiscal year ended May 31, 2011.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

The following table presents the amount of revenues from various sources, as well as, increases or decreases from the prior year:

	<u>Revenues Classified by Source</u>			<u>Amount of Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
	<u>Governmental Funds</u>				
	<u>2012 Amount</u>	<u>Percent of Total</u>	<u>2011 Amount</u>		
Revenues:					
Real property taxes and tax items	\$ 6,006,830	68.91%	\$ 5,803,483	\$ 203,347	3.50%
Non-property tax items	1,345,923	15.44%	1,267,243	78,680	6.21%
Departmental Income	308,430	3.54%	227,859	80,571	35.36%
Intergovernmental charges	152,789	1.75%	191,106	(38,317)	-20.05%
Use of money and property	204,846	2.35%	190,403	14,443	7.59%
Licenses and permits	5,838	0.07%	4,269	1,569	36.75%
Fines and forfeitures	110,826	1.27%	111,543	(717)	-0.64%
Sale of property and compensation for loss	83,089	0.95%	31,432	51,657	164.35%
Premium on obligations	-	0.00%	480	(480)	100.00%
Miscellaneous	30,769	0.35%	28,529	2,240	7.85%
State Aid	467,939	5.37%	344,435	123,504	35.86%
Federal Aid	-	0.00%	-	-	100.00%
Total Revenues	\$ 8,717,279	100.00%	\$ 8,200,782	\$ 516,497	

The following provides an explanation of revenues by source that changed significantly over the prior year:

Real Property Taxes and Tax Items - The \$203,347 increase was primarily due to an increase in the 2011-2012 tax levy.

Non-Property Tax Items - The \$78,680 increase was primarily due to the increase in sales tax and franchise fees.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

The following table presents expenditures, by function, compared to prior year amounts:

Expenditures by Function
Governmental Funds

	<u>2012</u> <u>Amount</u>	<u>Percent of</u> <u>Total</u>	<u>2011</u> <u>Amount</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent of</u> <u>Increase</u> <u>(Decrease)</u>
Expenditures:					
General governmental support	\$ 1,386,357	16.13%	\$ 1,344,057	\$ 42,300	3.15%
Public safety	1,762,538	20.51%	1,697,555	64,983	3.83%
Health	7,981	0.09%	8,545	(564)	-6.60%
Transportation	1,594,385	18.55%	1,202,712	391,673	32.57%
Culture and recreation	628,396	7.31%	614,526	13,870	2.26%
Home and community services	524,402	6.10%	525,379	(977)	-0.19%
Employee benefits	1,997,778	23.24%	1,848,514	149,264	8.07%
Debt service	692,964	8.06%	673,900	19,064	2.83%
Total Expenditures	\$ 8,594,801	100.00%	\$ 7,915,188	\$ 679,613	

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

Transportation - The \$391,673 increase was primarily due to a increase in expenditures for the Road Paving.

Employee Benefits - The \$149,264 increase was primarily due to an increase in NYS Retirement System costs, health insurance and workers' compensation insurance expenditures.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis
For the Year Ended May 31, 2012

The current year excess of revenues over expenditures is presented below:

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds

	<u>Major Funds</u>			
	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Sewer</u>
Revenues	\$ 8,667,985	\$ 29,260	\$ 8,697,245	\$ 80,034
Expenditures	<u>7,827,608</u>	<u>687,193</u>	<u>8,514,801</u>	<u>80,000</u>
Excess (Deficiency) of Revenues over Expenditures	<u>840,377</u>	<u>(657,933)</u>	<u>182,444</u>	<u>36</u>
Other Financing Sources, Net	<u>(160,979)</u>	<u>220,979</u>	<u>60,000</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	679,398	(436,954)	242,444	36
Fund Balance (Deficit) at June 1, 2011	<u>3,815,167</u>	<u>(541,546)</u>	<u>3,273,621</u>	<u>-</u>
Fund Balance (Deficit) at May 31, 2012	<u>\$ 4,494,565</u>	<u>\$ (978,500)</u>	<u>\$ 3,516,065</u>	<u>\$ 36</u>

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

Proprietary Funds: The Village's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$335,791 decrease in appropriations. Of this increase \$250,605 represents previous year encumbrances and the remainder represents an decrease of appropriated fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Village's investment in capital assets for its governmental activities as of May 31, 2012, amounted to \$28,152,756 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, equipment and fire trucks and vehicles.

All depreciable capital assets were depreciated under the straight-line method using the full-year convention.

Capital assets net of depreciation are presented below:

Summary of Village of Hamburg's Capital Assets (Net of Depreciation)

Land	\$ 1,762,805
Construction in progress	498,453
Buildings and Improvements	3,060,612
Machinery and Equipment	1,352,758
Infrastructure	<u>21,478,128</u>
Total	<u>\$ 28,152,756</u>

Additional information on the Village of Hamburg's capital assets can be found on page 51.

VILLAGE OF HAMBURG, NEW YORK

Management's Discussion and Analysis For the Year Ended May 31, 2012

Long-term Debt

At May 31, 2012, the Village had total long-term debt outstanding of \$5,141,061 as compared to \$5,663,959 in the prior year. The amount is comprised of serial bonds, retirement loans and compensated absences. During the year retirement of debt amounted to \$522,904 and additions to debt during the fiscal year amounted to \$0. New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year valuation. The current debt limitation for the Village is \$22,016,981, of which 26.46% is exhausted.

Additional information on the Village's long-term debt can be found on pages 45 through 47 of the Notes to the Financial Statements.

Request for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Village of Hamburg, 100 Main Street, Hamburg, New York 14075.

BASIC FINANCIAL STATEMENTS

VILLAGE OF HAMBURG, NEW YORK

Statement of Net Assets
May 31, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>
		<u>Gas Utility</u>	
Cash and Cash Equivalents	\$ 7,750,735	\$ 24,850	\$ 7,775,585
Receivables (Net of Allowances for Estimated Uncollectables)	347,984	13,672	361,656
Prepaid Expenses	313,607	-	313,607
Due from Other Governments	352,944	-	352,944
Capital Assets:			
Land	1,762,805	-	1,762,805
Construction in Progress	498,453	-	498,453
Other Capital Assets, Net of Depreciation	<u>25,891,498</u>	<u>-</u>	<u>25,891,498</u>
Total Assets	<u>\$ 36,918,026</u>	<u>\$ 38,522</u>	<u>\$ 36,956,548</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

Statement of Net Assets
May 31, 2012

<u>LIABILITIES AND NET ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activity</u> <u>Gas Utility</u>	<u>Total</u>
Liabilities:			
Current Liabilities:			
Accounts Payable	\$ 373,594	\$ 2,525	\$ 376,119
Accrued Liabilities	54,078	-	54,078
Deferred Revenues	721,190	-	721,190
Other Liabilities	6,670	131,000	137,670
Bond Anticipation Note Payable	3,790,000	-	3,790,000
Accrued Post-employment Benefit Obligation	305,172	-	305,172
Long-term Liabilities:			
Due within One Year	438,947	-	438,947
Due in more than One Year	7,210,324	-	7,210,324
Total liabilities	<u>12,899,975</u>	<u>133,525</u>	<u>13,033,500</u>
Net assets:			
Invested in capital assets, net of related debt	20,277,756	-	20,277,756
Restricted for:			
Insurance	208,749	-	208,749
Debt	573,887	-	573,887
Prepaid Expenses	199,795	-	199,795
Capital Improvements	591,222	-	591,222
Unrestricted	2,166,642	(95,003)	2,071,639
Total net assets	<u>24,018,051</u>	<u>(95,003)</u>	<u>23,923,048</u>
Total Liabilities and Net Assets	<u>\$ 36,918,026</u>	<u>\$ 38,522</u>	<u>\$ 36,956,548</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

Statement of Activities
For the Year Ended May 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business Type Activity
Functions/Programs:							
Governmental Activities:							
General Government	\$ 1,822,714	\$ 137,928	\$ -	\$ -	\$ (1,684,786)	\$ -	\$ (1,684,786)
Public Safety	2,682,498	152,789	6,827	-	(2,522,882)	-	(2,522,882)
Health	7,981	-	-	-	(7,981)	-	(7,981)
Transportation	2,034,192	-	252,123	-	(1,782,069)	-	(1,782,069)
Culture and Recreation	987,304	207,132	16,734	-	(763,438)	-	(763,438)
Home and Community Services	743,210	80,034	-	-	(663,176)	-	(663,176)
Unallocated Interest and Fiscal Charges	172,274	-	-	-	(172,274)	-	(172,274)
Total Governmental Activities	<u>8,450,173</u>	<u>577,883</u>	<u>275,684</u>	<u>-</u>	<u>(7,596,606)</u>	<u>-</u>	<u>(7,596,606)</u>
Business-type activity:							
Gas Utility	326,594	318,450	-	-	-	(8,144)	(8,144)
Total Primary Government	<u>\$ 8,776,767</u>	<u>\$ 896,333</u>	<u>\$ 275,684</u>	<u>\$ -</u>	<u>(7,596,606)</u>	<u>(8,144)</u>	<u>(7,604,750)</u>
General Revenues:							
Real Property Tax					5,961,434	-	5,961,434
Sales Tax					1,098,148	-	1,098,148
Gross Utility Tax					87,473	-	87,473
Franchise Tax					160,302	-	160,302
Real Property Tax Items					105,396	-	105,396
Use of Money and Property					204,846	14	204,860
Sale of Property and Compensation for Loss					83,089	-	83,089
State Aid					192,253	-	192,253
Miscellaneous					30,771	-	30,771
Total General Revenues					<u>7,923,712</u>	<u>14</u>	<u>7,923,726</u>
Change in Net Assets					327,106	(8,130)	318,976
Total Net Assets at Beginning of Year					<u>23,690,945</u>	<u>(86,873)</u>	<u>23,604,072</u>
Total Net Assets at End of Year					<u>\$ 24,018,051</u>	<u>\$ (95,003)</u>	<u>\$ 23,923,048</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GOVERNMENTAL FUNDS

Balance Sheet
May 31, 2012

	<u>General</u>	<u>Sewer</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash	\$ 4,840,257	\$ 75,348	\$ 2,835,130	\$ 7,750,735
Accounts Receivable	70,153	-	-	70,153
Due from Other Funds	277,831	-	-	277,831
Due from Other Governments	352,944	-	-	352,944
Prepaid Expenditures	<u>313,607</u>	<u>-</u>	<u>-</u>	<u>313,607</u>
Total Assets	<u>\$ 5,854,792</u>	<u>\$ 75,348</u>	<u>\$ 2,835,130</u>	<u>\$ 8,765,270</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GOVERNMENTAL FUNDS

Balance Sheet
May 31, 2012

	<u>General</u>	<u>Sewer</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 356,634	\$ -	\$ 16,960	\$ 373,594
Bond Anticipation Note Payable	-	-	3,790,000	3,790,000
Due to Other Funds	-	-	6,670	6,670
Deferred Revenues	645,876	75,314	-	721,190
Compensated Absences	357,717	-	-	357,717
Total Liabilities	<u>1,360,227</u>	<u>75,314</u>	<u>3,813,630</u>	<u>5,249,171</u>
Fund Balances:				
Non-spendable	313,607	-	-	313,607
Restricted	1,373,858	34	(978,500)	395,392
Committed	-	-	-	-
Assigned	199,795	-	-	199,795
Unassigned	2,607,305	-	-	2,607,305
Total Fund Balances (Deficit)	<u>4,494,565</u>	<u>34</u>	<u>(978,500)</u>	<u>3,516,099</u>
Total Liabilities and Fund Balances	<u>\$ 5,854,792</u>	<u>\$ 75,348</u>	<u>\$ 2,835,130</u>	<u>\$ 8,765,270</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

Reconciliation of Statement of Net Assets
To Governmental Fund Balance
May 31, 2012

	<u>Governmental Activities</u>
Total Governmental Fund Balances	\$ 3,516,099
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.	28,152,756
Accrued interest not reported in the funds	(54,078)
Accrued post-employment benefit obligation	(2,455,671)
Long-term liabilities, including bonds payable, are not due and not payable in the current period and therefore are not reported in the funds.	<u>(5,141,055)</u>
Net Assets of Governmental Activities	<u>\$ 24,018,051</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended May 31, 2012

	<u>General</u>	<u>Sewer</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Real Property Taxes	\$ 5,961,434	\$ -	\$ -	\$ 5,961,434
Other Property Tax Items	105,396	-	-	105,396
Non-property Tax Items	1,345,923	-	-	1,345,923
Departmental Income	228,396	80,000	-	308,396
Intergovernmental Charges	152,789	-	-	152,789
Use of Money and Property	189,212	34	15,634	204,880
Licenses and Permits	5,838	-	-	5,838
Fines and Forfeitures	110,826	-	-	110,826
Sale of Property and Compensation for Loss	83,089	-	-	83,089
Premium on Obligations	-	-	-	-
Miscellaneous	30,769	-	-	30,769
State Aid	454,313	-	13,626	467,939
Total Revenues	<u>8,667,985</u>	<u>80,034</u>	<u>29,260</u>	<u>8,777,279</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended May 31, 2012

	General	Sewer	Capital Projects	Total Governmental Funds
Expenditures:				
Current:				
General Government Support	\$ 1,386,357	\$ -	\$ -	\$ 1,386,357
Public Safety	1,762,538	-	-	1,762,538
Health	7,981	-	-	7,981
Transportation	1,062,823	-	531,562	1,594,385
Culture and Recreation	576,575	-	51,821	628,396
Home and Community Services	420,592	-	103,810	524,402
Employee Benefits	1,997,778	-	-	1,997,778
Debt Service - Principal	455,000	60,000	-	515,000
Debt Service - Interest	157,964	20,000	-	177,964
Total Expenditures	<u>7,827,608</u>	<u>80,000</u>	<u>687,193</u>	<u>8,594,801</u>
Excess (Deficiency) of Revenues over Expenditures	<u>840,377</u>	<u>34</u>	<u>(657,933)</u>	<u>182,478</u>
Other Sources and (Uses):				
BANS Redeemed from Appropriations			60,000	60,000
Transfers from Other Funds	28,520	-	198,900	227,420
Transfers to Other Funds	(189,499)	-	(37,921)	(227,420)
Total Other Sources and (Uses)	<u>(160,979)</u>	<u>-</u>	<u>220,979</u>	<u>60,000</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	679,398	34	(436,954)	242,478
Fund Balances (Deficit) at Beginning of Year	<u>3,815,167</u>	<u>-</u>	<u>(541,546)</u>	<u>3,273,621</u>
Fund Balances (Deficit) at End of Year	<u>\$ 4,494,565</u>	<u>\$ 34</u>	<u>\$ (978,500)</u>	<u>\$ 3,516,099</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

**Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended May 31, 2012**

	Governmental Activities
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net change in fund balances total governmental funds.	\$ 242,478
Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets increased in the current year.	725,113
Accrued interest is reported on the statement of activities but not the governmental funds. This is the net change in accrued interest.	5,690
The issuance on long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect in the treatment of long-term debt including compensated absences.	522,904
Depreciation recorded on the statements of activities but not in the statement for governmental funds.	(714,882)
Accrued post-employment benefit obligation liability increases long-term liabilities in the statement of net assets and related expenditures in the statement of activities, but not to governmental funds. Net post-employment benefit contribution is an expenditure in governmental funds, but the contribution reduces long-term liabilities in the statement of net assets. This is the amount by which accrued post-employment benefit liability adjustment exceeds the contribution.	(454,197)
Change in Net Assets of Governmental Activities	\$ 327,106

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GENERAL FUND

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Year Ended May 31, 2012

	General Fund		
	Budget	Actual	Variance
Revenues:			
Real Property Taxes	\$ 5,964,379	\$ 5,961,434	\$ (2,945)
Other Tax Items	85,313	105,396	20,083
Non Property Tax Items	1,166,816	1,345,923	179,107
Departmental Income	225,457	228,396	2,939
Intergovernmental Charges	152,789	152,789	-
Use of Money and Property	189,987	189,212	(775)
Licenses and Permits	3,950	5,838	1,888
Fines and Forfeitures	105,000	110,826	5,826
Sale of Property and Compensation for Loss	47,783	83,089	35,306
Miscellaneous	14,917	30,769	15,852
State Aid	530,379	454,313	(76,066)
Total Revenues	<u>8,486,770</u>	<u>8,667,985</u>	<u>181,215</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

GENERAL FUND

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended May 31, 2012

	General Fund		
	Budget	Actual	Variance
Expenditures:			
Current:			
General Government Support	\$ 1,613,350	\$ 1,311,399	\$ 301,951
Public Safety	1,793,369	1,698,251	95,118
Health	9,850	8,545	1,305
Transportation	1,090,566	1,109,084	(18,518)
Culture and Recreation	607,110	617,986	(10,876)
Home and Community Services	443,558	392,289	51,269
Employee Benefits	2,080,988	1,848,801	232,187
Debt Service - Principal	455,000	460,000	(5,000)
Debt Service - Interest	157,964	173,900	(15,936)
Total Expenditures	<u>8,251,755</u>	<u>7,620,255</u>	<u>631,500</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>235,015</u>	<u>1,047,730</u>	<u>812,715</u>
Other Sources and (Uses):			
Transfers from Other Funds	-	4,890	4,890
Transfers to Other Funds	(206,619)	(199,352)	7,267
Total Other Sources and (Uses)	<u>(206,619)</u>	<u>(194,462)</u>	<u>12,157</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	28,396	853,268	824,872
Fund Balance at Beginning of Year	<u>3,815,167</u>	<u>3,815,167</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 3,843,563</u>	<u>\$ 4,668,435</u>	<u>\$ 824,872</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

PROPRIETARY FUND TYPES - ENTERPRISE FUND

Statement of Net Assets

May 31, 2012

	<u>Gas Utility</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 24,850
Accounts receivable	<u>13,672</u>
Total Assets	<u>\$ 38,522</u>
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable	\$ 2,525
Due to other funds	<u>131,000</u>
Total Liabilities	<u>133,525</u>
Net Assets:	
Unrestricted	<u>(95,003)</u>
Total Net Assets	<u>(95,003)</u>
Total Liabilities and Net Assets	<u>\$ 38,522</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

PROPRIETARY FUND TYPES - ENTERPRISE FUND

Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended May 31, 2012

	<u>Gas Utility</u>
Operating Revenues:	
Sale of Natural Gas	\$ 318,450
Interest and Earnings	<u>14</u>
Total Operating Revenues	<u>318,464</u>
Operating Expenses:	
Natural Gas Distribution	<u>326,594</u>
Total Operating Income (Loss)	<u>(8,130)</u>
Change in Net Assets	(8,130)
Total Net Assets at June 1, 2010	<u>(86,873)</u>
Total Net Assets at May 31, 2011	<u>\$ (95,003)</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK
PROPRIETARY FUND TYPES - ENTERPRISE FUND

Statement of Cash Flows
For the Year Ended May 31, 2012

	Business-type Activities
	Gas Utility
Cash flows from operating activities:	
Receipts from customers and users	\$ 370,056
Interest earned	14
Payments to suppliers	(352,148)
Net cash from operating activities	17,922
Cash flows from financing activities:	
Distributions	(80,000)
Decrease in cash	(62,078)
Cash and cash equivalents at June 1, 2011	86,928
Cash and cash equivalents at May 31, 2012	\$ 24,850
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (8,130)
Adjustments to reconcile income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	51,606
Decrease in accounts payable	(105,554)
Total adjustments	(53,948)
Net cash used by operating activities	\$ (62,078)

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

FIDUCIARY FUND

Statement of Fiduciary Net Assets
May 31, 2012

	<u>Agency Fund</u>
Assets:	
Cash and Cash Equivalents	\$ 264,555
Total Assets	<u>\$ 264,555</u>
Liabilities and Net Assets:	
Liabilities:	
Accounts Payable	\$ 3,078
Employee Withholding and Temporary Deposits	49,337
Due to Other Funds	140,161
Other Agency Liabilities	<u>71,979</u>
Total Liabilities	<u>264,555</u>
Net Assets:	
Net Assets	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 264,555</u>

The accompanying notes are an integral part of the basic financial statements.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements May 31, 2012

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Village of Hamburg, New York (the "Village") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The more significant of the Village's accounting policies are described below.

Financial Reporting Entity - The Village of Hamburg is governed by its Charter, the Village law and other general laws of the State of New York and various local laws. The Village Board is the legislative body responsible for overall operations, the Mayor serves as chief executive officer and the Village Clerk-Treasurer serves as chief fiscal officer.

The following basic services are provided: police and law enforcement, fire protection, highway, recreation and natural gas service.

All governmental activities and functions performed for the Village of Hamburg are its direct responsibility. No other component units have been included or excluded from the reporting entity.

Government-wide and Fund 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 non-fiduciary activities of the government. For the most part, the effects of interfund activity have been removed from these statements. Government activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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 latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Fund Accounting - The accounts of the Village are organized on the basis of fund accounting, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are summarized by type in the financial statements. Certain funds of the Village are utilized to account for resources derived from, and/or expenditures applicable to an area less than the entire Village. The following fund types are used:

Fund Categories

Governmental Funds - 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 Village's governmental fund types:

General Fund - the principal operating fund and includes all operations not required to be recorded in other funds.

Sewer Fund - This fund accounts for the revenues and expenditures derived from providing sanitary sewer services to Village residents.

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

Proprietary Fund - used to account for organizations or activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Village's proprietary fund is an enterprise fund used for its municipal natural gas system.

Fiduciary Funds - used to account for assets held by the local government in a trustee or custodial capacity:

Agency Fund - used to account for money (and/or property) received and held in the capacity of trustee, custodian or agent. These include private purpose trusts, permanent trusts and agency funds. The private purpose trust is accounted for in essentially the same manner as governmental funds. The permanent trust funds are proprietary in nature and use the accrual basis of accounting. The agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Measurement focus is the determination of what is expressed in reporting an entity's financial performance and position, (i.e., expenditures or expenses). A particular measurement focus is accomplished both by considering what resources will be measured and the basis of accounting.

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e., expenditures or expenses

Accrual Basis - Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Modified Accrual Basis - All governmental funds are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities for the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax and certain user charges. 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 incurred except when:

- a) Expenditures for prepaid expenses and inventory-type items are recognized at the time of purchase.
- b) Principal and interest on long-term debt are not recognized as expenditure until due.
- c) Compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund - the principal operating fund and includes all operations not required to be recorded in other funds.

Sewer Fund - this fund accounts for the revenues and expenditures derived from providing sanitary sewer services to Village residents.

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

Additionally, the Village reports the following fiduciary fund type that is used to account for assets held by the Village in a custodial capacity:

Agency Fund - used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results and operations. Agency funds, such as payroll withholdings, are reported as liabilities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. General revenues are those that cannot be associated directly with program activities.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

Property Taxes - Village property taxes are levied annually by June 1. The Village tax rate is based on the amount per \$1,000 assessed valuation. Taxes may be paid without penalties on or before June 1 through July 1. Interest of 7.5% is added if paid between July 2 and July 31. An additional 1.5% is added for each month thereafter.

The Village receives the full amount of their levies annually. The uncollected portion of the tax roll is sent to the Erie County Commissioner of Finance at which time all unpaid taxes and penalties are payable to that office. The County enforces all liens.

Budgetary Data

Budget Policies - The budget policies are as follows:

- a) No later than March 31 the budget officer submits a tentative budget to the Village Board for the fiscal year commencing the following June 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds except the Capital Projects Fund.
- b) After public hearings are conducted to obtain taxpayer comments, no later than May 1, the Village Board adopts the budget.
- c) All modifications of the budget must be approved by the Village Board.
- d) Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects, which remain in effect for the life of the projects.
- e) Budgetary controls are established by applicable grant agreements, which cover a period other than the Village's fiscal year.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Budgetary Data

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

The following is a reconciliation of the budgetary and GAAP basis operating results for the General Fund:

Excess of Revenues and Other Sources Over Expenditures and Other Uses - GAAP Basis	\$ 679,398
Add: Prior Year Encumbrances	250,605
Less: Current Year Encumbrances	<u>(199,795)</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis	<u>\$ 730,208</u>

Budget Basis of Accounting - Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

General Fund comparisons of budgetary and actual data at the legal level of budgetary control, i.e. the object level, are not presented in this report due to the excessive detail involved. However, a separate budgetary comparison report is available which contains this information.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Insurance - The Village purchases insurance covering liability for most risks including, but not limited to, property damage, general liability, vehicle liability, workers' compensation and excess liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated and the estimated amount of loss exceeds insurance coverage.

Vacation and Sick Leave and Compensated Absences - Most Village employees are granted vacation, personal and sick leave and earn compensatory time in varying amounts. Employees may accumulate compensated absences and sick leave. Sick leave may accumulate up to a maximum of 300 days and are considered additional service time for those employees who retire. Some employees hired after June 1, 2010 may accumulate a maximum of 450 days which they can use to pay their cost of continuing their health insurance coverage upon retirement.

Post Employment Benefits - Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Village provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured on or before the fifteenth (15th) day of the month prior to the actual month covered. There is no associated cost to the Village under this program.

Pensions - Nearly all Village employees are members of various New York State retirement systems. The Village is invoiced annually by the systems for its share of the costs.

Capitalized Interest - The Village generally capitalizes interest during construction as part of the cost of constructing capital projects when material.

Statement of Cash Flows - For the purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory - Inventory type items are stated at cost.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets and water lines), are reported in the governmental activities column on the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost equal to or greater than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated cost if purchased or constructed after 1980. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives is not capitalized. Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives as follows:

Building and Building Improvements	15-40 years
Machinery and Equipment	3-25 years
Transportation Network	20-100 years
Water Treatment and Distribution Network	20-100 years

When capital assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period in the government-wide statements. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful lives of the assets, whichever is shorter. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements

May 31, 2012

Note 1 - Summary of Significant Accounting Policies (Cont.)

Restrictions, Reserves and Designations - The government-wide fund financial statements utilize a net assets presentation: capital assets (net of related debt), restricted and unrestricted.

Net assets are categorized as invested in:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents net assets of the Village not restricted for any project or other purpose.

Non-Spendable – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or law or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance.

Committed - Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision making authority, ie., the Common Council.

Assigned - Included amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted or committed. All encumbrances of the General Fund are classified as Assigned Fund Balance in the General fund.

Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the Village.

VILLAGE OF HAMBURG, NEW YORK

**Notes to the Financial Statements
May 31, 2012**

Note 2 - Detail Notes on All Funds

Assets

Cash and Investments - The Village investment policies are governed by state statutes. In addition, the Village also has its own written investment policy.

Village monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Clerk Treasurer is authorized to use demand accounts and certificates of deposit.

Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 102-105% of the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity. The Statutory Basis Statement of Cash Flows uses the indirect method of reporting cash flows.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Cash and Investments (Cont.)

Deposits and investments at year-end were entirely covered by federal depository insurance or by collateral held by the Village's custodial bank in the Village's name. They consisted of:

Deposits - All deposits including certificates of deposit are carried at cost plus accrued interest.

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash on Hand	\$ -	\$ 1,150
Insured (FDIC)	296,483	296,483
Collateralized:		
Collateral Held by Bank's Agent in Village's Name	<u>7,714,417</u>	<u>7,453,102</u>
Total Deposits	<u>\$ 8,010,900</u>	<u>\$ 7,750,735</u>

Accounts Receivable - Major revenues accrued by the Village at May 31, 2011 include the following:

General Fund	
Creek Bend	\$ 41,330
National Fuel Gas	9,505
NYSEG	8,862
Summer Program Fees	4,295
Cobra Health Insurance	4,790
Other Receivables	<u>1,371</u>
Total	<u>\$ 70,153</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Due From Other Governments - Major other government revenues accrued by the Village at May 31, 2011 include the following:

General Fund	
Erie County - Sales Tax	\$ 251,255
Erie County - DWI	3,500
NYS Chips	42,393
NYS Youth Aid	2,102
Mortgage tax	42,561
Justice Courts	9,395
Step Grant	<u>1,738</u>
Total	<u>\$ 352,944</u>

Interfund Activity

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 277,831	\$ -	\$ 28,520	\$ 189,499
Capital Projects	-	6,670	198,900	37,921
Fiduciary Fund	-	140,161	-	-
Enterprise Fund	<u>-</u>	<u>131,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 277,831</u>	<u>\$ 277,831</u>	<u>\$ 227,420</u>	<u>\$ 227,420</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Liabilities

Pension Plans

General Information - The Village of Hamburg participates in the New York State and Local Employees' Retirement System (ERS) and the New York State Police and Fire Retirement Systems (PFRS). These are cost sharing multiple employers, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Plan Descriptions

Police and Fire Retirement System (PFRS)

The New York State and Local Police and Fire Retirement System provide retirement benefits as well as death and disability benefits. Obligations of employers 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Governor Alfred E. Smith Office Building, Albany, New York 12244.

Beginning January 9, 2010, most members will contribute 3% of their salary for all their years of public service. There will be some exceptions, for example members enrolled in retirement plans limiting the amount of creditable service that may accrue will not be required to contribute once they reach the maximum amount of service allowed by their plan.

For the New York State and Local Police and Fire Retirement System, 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 accumulation fund.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Pension Plans (Cont.)

Funding Policy

Employees Retirement System (ERS) - The New York State and Local Employees' Retirement System provides 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

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. Effective October 1, 2000 employees with ten years of service credit or membership in the System are not required to make the 3% contribution. Beginning on January 1, 2010, employees must contribute 3% of their salary for all their years of public service, except State Correction Officers whose contributions would be limited to 30 years of service and Uniformed Court Officers and Peace Officers employed by the Unified Court System who would contribute 4% of their salary for all their years of public service. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, for their entire working career.

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 accumulation fund.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Pension Plans (Cont.)

The Village of Hamburg is required to contribute at an actuarially determined rate. The required contributions for the current year and the preceding year were:

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 294,799	\$ 193,050
2011	199,330	175,477
2010	136,376	169,096

The Village of Hamburg contributions made to the Systems were equal to 100% of the contributions required for each year.

Long-term Debt - At May 31, 2012, the total outstanding indebtedness of the Village aggregated \$7,910,761. Of this amount, \$5,825,761 was subject to the constitutional debt limit and represented approximately 26.46% of its debt limit.

Serial Bonds - The Village borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the local government. The provision to be made in future budgets for capital indebtedness represents the amount exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Long-term Debt - The following is a summary of changes in long-term liabilities for the year ended May 31, 2012

	Balance June 1, 2011	Additions	Deletions	Balance May 31, 2012
General Obligation Bonds	\$ 4,540,000	\$ -	\$ 455,000	\$ 4,085,000
Retirement Loan	44,708	-	8,941	35,767
Compensated Absences	1,079,251	-	58,957	1,020,294
Long Term Debt	<u>\$ 5,663,959</u>	<u>\$ -</u>	<u>\$ 522,898</u>	<u>\$ 5,141,061</u>

Long-term Maturity Schedule - The following is a statement of serial bonds with corresponding maturity schedules.

Description by Fund	Original Date Issued	Original Amount	Rate	Date of Final Maturity	Outstanding
General Fund:					
Fire Hall	7/15/03	\$ 1,905,000	3.50-3.60	7/15/20	\$ 840,000
Public Improvement 2004	4/15/04	310,000	4.70	4/15/14	50,000
Public Improvements 2000	5/15/00	1,287,500	5.30-5.50	6/15/13	110,000
Public Improvements 2004	9/16/04	632,000	3.70	9/15/15	220,000
Public Improvements 2010	2/1/10	3,255,000	2.5-4.00	2/1/28	2,865,000
Total					<u>\$ 4,085,000</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

The following table summarizes the Village's future debt service requirements as of May 31, 2012:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 430,000	\$ 142,029
2014	415,000	127,396
2015	345,000	114,247
2016	270,000	104,896
2017	280,000	96,833
2018-2022	1,205,000	348,541
2023-2027	950,000	152,000
2028	190,000	7,600
	<u>\$ 4,085,000</u>	<u>\$ 1,093,542</u>

Other Long-term Debt - In addition to the above long-term debt the Village had the following noncurrent liabilities:

Compensated Absences - represents the value of earned and unused portion of the liability for compensated absences. At May 31, 2012, the balance is \$1,020,294 (\$1,079,251 for 2011).

Retirement Loan - represents amount of borrowed from the retirement system for portion of retirement expenses to be amortized over the next ten years.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Short-term Debt

Bond Anticipation Notes - Notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds. Such notes may be classified as part of Long-term Debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of a long-term debt or by an acceptable financing agreement. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date. The following Bond Anticipation Note was issued during the year:

<u>Description</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance At May 31, 2012</u>
Capital Project Fund:				
Water and Sewer Improvements	7/21/11	7/21/12	2.50%	\$ 1,540,000
Road Improvements	7/21/11	7/21/12	2.50%	<u>2,250,000</u>
Total				<u>\$ 3,790,000</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Fund Equity

Reserve - Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

Specific reservations of the fund balance accounts are summarized below.

<u>Fund</u>	<u>Balances</u>
General Fund - Insurance Reserve	\$ 208,749
General Fund - Debt Reserve	573,887
General Fund - Capital Reserve	591,222
Sewer Fund	34
Capital Fund	<u>(978,500)</u>
Total General Fund	<u>\$ 395,392</u>
Non-Spendable Fund Balances are as follows:	
General Fund - Prepaid Expenditures	<u>\$ 313,607</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 2 - Detail Notes on All Funds (Cont.)

Fund Equity - Reserve

Assigned Fund Balances are as follows:

General Fund - Encumbrances	\$ <u>199,795</u>
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Unassigned Fund Balances are as follows:

General Fund - Undesignated	\$ 2,265,395
General Fund - Designated	<u>341,910</u>
Total	\$ <u>2,607,305</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 3 - Capital Assets

Capital asset activity for the year ended May 31, 2012 is as follows:

	<u>Balance</u> <u>June 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>May 31, 2012</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 1,762,805	\$ -	\$ -	\$ 1,762,805
Construction in Progress	2,246,442	725,114	(2,473,103)	498,453
Total Capital Assets, not being Depreciated	<u>\$ 4,009,247</u>	<u>\$ 725,114</u>	<u>\$ (2,473,103)</u>	<u>\$ 2,261,258</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 4,177,834	\$ -	\$ -	\$ 4,177,834
Machinery and Equipment	3,788,014	708,538	-	4,496,552
Infrastructure	32,957,976	1,764,565	-	34,722,541
Total Capital Assets, being Depreciated	<u>40,923,824</u>	<u>2,473,103</u>	<u>-</u>	<u>43,396,927</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	1,075,427	41,795	-	1,117,222
Machinery and Equipment	2,944,210	199,584	-	3,143,794
Infrastructure	12,770,909	473,504	-	13,244,413
Total Accumulated Depreciation	<u>16,790,546</u>	<u>714,883</u>	<u>-</u>	<u>17,505,429</u>
Total Capital Assets, being Depreciated, Net	<u>\$ 24,133,278</u>	<u>\$ 1,758,220</u>	<u>\$ -</u>	<u>\$ 25,891,498</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements May 31, 2012

Note 4 - Commitments and Contingencies

The Village receives financial assistance from numerous federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds.

Note 5 - Fiduciary Fund – Defined Benefit Volunteer Firefighter Service Award Program

Length of Service Awards Program – LOSAP - The Village established a defined benefit Service Award Program (referred to as a “LOSAP” – Length of Service Award Program – under Section 457(e)(11) of the Internal Revenue Code” effective January 1, 1993 for the active volunteer firefighter members of the Village of Hamburg Volunteer Fire Department, Inc. The Program was established pursuant to Article 11-A of the New York State General Municipal Law. The Program provides municipally funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteer firefighters. The Village is the sponsor of the Program and the Program administrator.

Program Description

Participation, Vesting and Service Credit - In a defined LOSAP, participating volunteers begin to be paid a Service Award upon attainment of the Program’s Entitlement Age. An eligible Program Participant is defined by the Program sponsor to be an active volunteer firefighter who is at least 18 years of age and has earned on (1) year of Service Award Program service credit in a complete calendar year. The amount of the Service Award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the Program for performing active volunteer firefighter activities.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements

May 31, 2012

Note 5 - Fiduciary Fund – Defined Benefit Volunteer Firefighter Service Award Program (Cont.)

Program Description (Cont.)

Participation, Vesting and Service Credit (Cont.)

Participants acquire a non-forfeitable right to be paid a Service Award after earning credit for five (5) years of service or upon attaining the Program's entitlement Age while an active volunteer. The Program's Entitlement Age is age 62. An active volunteer firefighter earns a year of Service Award Program service credit for each calendar year after the establishment of the Program in which he or she accumulates fifty (50) points. Points are granted for the performance of certain firefighter activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point value. A Participant may also receive Service Award Program service credit for five (5) years of active volunteer firefighting service rendered prior to the established of the Program as an active volunteer firefighter member of the Village of Hamburg Volunteer Fire Department, Inc.

Benefits - A Participant's Service Award benefit is paid as a ten year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of Service Award Program service credit earned by the Participant under the point system. The maximum number of years of service credit a Participant may earn under the Program is 40 years. Currently, there are no other forms of payment of a volunteer's earned service award under the Program. Except in the case of Pre-Entitlement Age death or total and permanent disablement, a Participant's Service Award will not be paid until he or she attains the Entitlement Age. Volunteers who continue to be active after attaining the Entitlement age and beginning to be paid a Service Award continue to have the opportunity to earn Program credit and to thereby increase their Service Award payments.

The Pre-Entitlement Age death and disability benefit is equal to the actuarial value of the Participant's earned service award at the time of death or disablement. The Program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are self-insured and are paid from the Program Trust Fund.

For a complete explanation of the Program, see the Program Document (a copy of which is available from the Village Clerk).

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 5 - Fiduciary Fund – Defined Benefit Volunteer Firefighter Service Award Program (Cont.)

Fiduciary Investment and Control - After the end of each calendar year, the Fire Department prepares and certifies a list of name of all persons who were active volunteer members of the Fire Department during the year indicating which volunteers earned fifty points. The certified list is delivered to the Board of Trustees for the Board's review and approval. The Fire Department must maintain the point system records to verify each volunteer's points on forms provided and/or approved by the Board of Trustees.

The Board of Trustees has retained Penflex, Inc. to assist in the administration of the Program. The services provided by Penflex, Inc. are described in the attached agreement between Penflex, Inc. and the Village of Hamburg.

Based on the certified calendar year volunteer firefighter listings Penflex determines and certifies in writing to the Board of Trustees the amount of the service award to be paid to a Participant or to a Participant's designated beneficiary. The person(s) authorized by the Board of Trustees then authorizes, in writing, the custodian of the Village of Hamburg LOSAP Trust funds to pay the Service Award. No Service Award benefit payment is made without the written certification from Penflex the written directive from an authorized representative of the Board of Trustees.

Penflex bills the Village of Hamburg for the services it provides. Penflex's invoices are authorized for payment by the Board of Trustees in the same manner as any other invoices presented to the Village for payment. The Village pays from the LOSAP trust fund (the Village reimburses the trust fund for amounts paid to Penflex).

Program assets are required to be held in trust by Article 11-A, for the exclusive purpose of providing benefits to Participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the Program. The Board of Trustees created a Service Award Program Trust Fund through the adoption of a Trust Document, a copy of which is available from the Village Clerk. The Board of Trustees is the program trustee.

Authority to invest the Program assets is vested in the Program trustee. Program assets are invested in accordance with a statutory prudent person rule.

The Board of Trustees has retained Janney Montgomery Scott, LLC to provide investment management and custodial services.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 5 - Fiduciary Fund – Defined Benefit Volunteer Firefighter Service Award Program (Cont.)

Fiduciary Investment and Control (Cont.)

The Board of Trustee is required to retain an actuary to determine the amount of the Village’s contributions to the plan. The actuary retained by the Village for this purpose is Edward J. Holohan of Penflex, Inc. Mr. Holohan is an Association of the American Society of Actuaries. Portions of the following information are derived from a report prepared by the actuary dated June 5, 2012.

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Accrued Service Awards as of 1/1/12		\$ <u>1,993,152</u>
Less: Assets Available for Benefits		
Cash and Money Market	\$ 33,090	
Equities	1,885,149	
Less: Liabilities	<u>-</u>	
Total Net Assets Available for Benefits	<u>\$ 1,918,239</u>	
Total Unfunded Benefits		74,913
Less: Unfunded Liability for Separately Amortized Costs		<u>16,000</u>
Unfunded Normal Benefits		<u>\$ 58,913</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 5 - Fiduciary Fund - Defined Benefit Volunteer Firefighter Service Award Program (Cont.)

Program Financial Condition (Cont.)

Separately Amortized Costs - Prior service costs have been amortized and paid.

Receipts and Disbursements		
Plan net Assets, beginning of year		\$ <u>1,879,906</u>
Changes during the year:		
Plan contributions	\$ 100,000	
Investment income earned	55,839	
Changes in fair market value of investments	(2,267)	
Administrative Fees	(5,519)	
Investment Management Fees	(19,232)	
Benefits Paid	<u>(90,488)</u>	
Total changes	<u>38,333</u>	
Plan Net Assets, end of year		\$ <u>1,918,239</u>
Contribution		
Amount of Village's contribution recommended by actuary:		\$ <u>73,630</u>
Amount of Village's actual contribution:		\$ <u>100,000</u>
Administrative Fees		
Fees paid to administrative/actuarial services provider		\$ <u>5,519</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 5 - Fiduciary Fund – Defined Benefit Volunteer Firefighter Service Award Program (Cont.)

Funding Methodology and Actuarial Assumptions

Normal Costs - The actuarial valuation methodology used by the actuary to determine the sponsor's contribution is the Attained Age Normal Frozen Initial Liability method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return of Program investment 6.0%

Table used for:

Post Entitlement Age mortality:	1994 Unisex Pensioner Male Mortality Table Projected with scale AA to 2007
* Pre-Entitlement Age mortality:	None
* Pre-Entitlement Age disability	None
* Pre-Entitlement Age withdrawal:	None
* Pre-Entitlement Age service credit accruals	100%

* For Program cost calculation purposes, all Pre-Entitlement Age active volunteer firefighter Participants are assumed to: survive to the Entitlement Age; remain active and earn 50 points each year; and begin to be paid Service Awards upon attainment of Entitlement Age.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 6 - Other Postemployment Benefits/implementation of GASB Statement 45

Village - In addition to providing pension benefits, the Village also provides health care benefits for retired employees, their dependents and certain survivors. Substantially all of the Village's employees may become eligible for those benefits if they reach normal retirement age while working for the Village. Prior to 2009, the Village recognized the cost of providing postretirement health insurance benefits by expensing those costs when paid.

During 2009, the Village implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, prospectively. This statement establishes standards for the recognition, measurement, and display of other postemployment benefits (retiree health insurance) expenses and related liabilities and note disclosure.

Plan Description - The Village administers its Retiree Medical Plan (the Plan) as a single-employer defined benefit other postemployment benefit (OPEB) plan. The Plan provides for the continuation of medical benefits to certain qualifying retirees of the Village, and their spouses and can be amended by action of the Village. The Plan does not carry a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy - The obligations of the Plan members, employers and other entities are established by employment agreements. The required contribution rates of the employer and the members varies depending on the applicable agreement covering the retiree, the retiree's hiring date and number of years of service to the Village. The Village currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. For 2012, the Village contributed approximately \$305,172 for current premiums. The costs of administering this plan are paid by the Village.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 6 - Other Postemployment Benefits/implementation of GASB Statement 45, (Cont.)

Funded Status and Funding Progress The schedule of funding progress presents multi year (when available) trend information that is useful in determining whether the actuary's value of Plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liability. The following table sets forth the actuarial accrued liability and funded status of the Plan as of May 31, 2012 the latest valuation date.

Actuarial Accrued Liability (AAL)

Actuarial accrued liability	\$ 9,075,080
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>9,075,080</u>
Funded ratio	<u>0%</u>
Annual covered payroll	<u>-</u>
Ratio of unfunded actuarial accrued liability to covered payroll	<u>0.00%</u>
2012 normal cost	<u>259,848</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 6 - Other Postemployment Benefits/implementation of GASB Statement 45, (Cont.)

Funded Status and Funding Progress, (cont.)

The following table summarizes the amortization calculation of the UAAL as of the latest valuation date:

UAAL	\$ 9,075,080
Amortization period (years)	30
Amortization discount rate	4.00%
Present value factor	17.9837
2012 UAAL amortization amount	504,628

Annual OPEB Cost and Net OPEB Obligation - The Village's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Village's annual OPEB cost for 2012:

Normal cost	\$ 259,848
Amortization of UAAL	504,628
Interest	<u>30,579</u>
ARC	795,055
Interest on OPEB obligation	80,059
Adjustment to ARC	<u>(115,745)</u>
OPEB expense	<u>\$ 759,369</u>

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2012

Note 6 - Other Postemployment Benefits/implementation of GASB Statement 45, (Cont.)

Funded Status and Funding Progress, (cont.)

The following table reconciles the Village's OPEB obligation at May 31, 2012:

Net OPEB obligation at beginning of year	\$ 2,001,474
2012 OPEB expense	759,369
2012 OPEB contributions	<u>(305,172)</u>
Net OPEB obligation at end of year	2,455,671
Less: estimated current portion of OPEB obligation	<u>305,172</u>
Estimated long-term portion of OPEB obligation	<u>\$ 2,150,499</u>
Percentage of expense contributed	<u>40.2%</u>

Actuarial Methods and Assumptions - Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

VILLAGE OF HAMBURG, NEW YORK

Notes to the Financial Statements
May 31, 2011

Note 6 - Other Postemployment Benefits/implementation of GASB Statement 45, (Cont.)

Actuarial Methods and Assumptions, (cont.)

The actuarial cost method used to calculate the costs of the Plan for age, disability, vested and surviving spouse's benefits is the Projected Unit Credit Actuarial Cost Method. Under this method, each participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial data and actuarial assumptions. For active participants, that AAL is determined by pro-rating the projected benefit based upon service accrued to the valuation date divided by service projected to be accrued at the first age of benefit eligibility. The normal cost is determined by dividing the projected benefit by service projected to be accrued at the first age of benefit eligibility.

The measurement date for the calculation was May 31st and the discount rate utilized was 4%. No salary increases were assumed since benefits are not based on compensation. Health care costs for both governmental and business-type activities were assumed to increase as follows:

<u>Year</u>	<u>Medical Trend Rate</u>
2012	10.0%
2013	8.0%
2014	7.0%
2015	6.0%

Note 7 - Subsequent Events

The Village has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 29, 2012, the date the financial statements were available to be issued.

* * * * *

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

Honorable Village Board
Village of Hamburg
Hamburg, New York

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Hamburg, New York as of and for the year ended May 31, 2012, which collectively comprise the Village of Hamburg, New York's basic financial statements and have issued our report thereon dated August 29, 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 Village of Hamburg, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Hamburg, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Hamburg, New York'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 misstatements on a timely basis.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Hamburg, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Hamburg, New York's financial statements that is more than inconsequential will not be prevented or detected by the Village of Hamburg, New York's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Hamburg, New York's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Village of Hamburg, New York'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 that are required to be reported under *Government Auditing Standards*.

We noted no matters which we reported to management of the Village of Hamburg, New York, in a separate letter dated August 29, 2012.

This report is intended solely for the information and use of management, the audit committee, and the Village Board and is not intended to be and should not be used by anyone other than these specified parties.

Amato, Fox & Company PC

August 29, 2012

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