

**VILLAGE OF FREDONIA,  
NEW YORK**

*Basic Financial Statements and Required Supplementary  
Information for the Year Ended May 31, 2021 and  
Independent Auditors' Reports*



**VILLAGE OF FREDONIA, NEW YORK**  
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**Year Ended May 31, 2021**

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Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees  
Village of Fredonia, New York:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Fredonia, New York (the "Village"), as of and for the year ended May 31, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the governmental activities and unmodified opinion on each major fund.

## ***Summary of Opinions***

<b><i>Opinion Unit</i></b>	<b><i>Type of Opinion</i></b>
Governmental Activities	Adverse
General Fund	Unmodified
Special Grant Fund	Unmodified
Water Fund	Unmodified
Wastewater Treatment Fund	Unmodified
Capital Projects Fund	Unmodified

### ***Basis for Adverse Opinion on Governmental Activities***

As discussed in Note 4, we were unable to obtain sufficient audit evidence to gain confidence over the balance of capital assets. In addition, management was unable to provide us with current year accumulated depreciation or depreciation expense. Accounting principles generally accepted in the United States of America require that assets be capitalized and depreciated, which would affect the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

### ***Adverse Opinion on Governmental Activities***

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion on Governmental Activities paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Village, as of May 31, 2021, and the changes in its financial position for the year then ended.

### ***Unmodified Opinions on Major Funds***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund for the Village, as of May 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2021 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

*Drescher & Malecki LLP*

November 9, 2021



**VILLAGE OF FREDONIA, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended May 31, 2021**

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As management of the Village of Fredonia, New York (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended May 31, 2021. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the Village's financial statements, which follow this narrative.

**Financial Highlights**

- The assets and deferred outflows of resources of the Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,943,522 (*net position*). This consists of \$11,075,155 net investment in capital assets, \$77,654 restricted for specific purposes, offset by unrestricted net position deficit of (\$209,287).
- The Village's total net position increased \$2,850,326 during the year ended May 31, 2021.
- At the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$4,525,004, a decrease of \$1,998,593 in comparison with the prior year's fund balance of \$6,523,597.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$519,738, or approximately 8.1 percent of total General Fund expenditures. This total amount is *available for spending* at the Village's discretion and constitutes approximately 56.9 percent of the General Fund's total fund balance of \$912,990 at May 31, 2021.
- The Village's governmental activities' total serial bonds outstanding increased by \$31,265 during the current year as a result of the issuance of serial bonds of \$626,545 offset by scheduled principal payments of \$595,280. The Village's Environmental Facilities Corporation ("EFC") notes payable increased by \$1,074,651 due to the issuance of \$2,680,995 in EFC notes payable which is partially offset by the conversion of \$619,301 of EFC notes payable to EFC bonds and a principal reduction of \$987,043 which was forgiven and has been recognized as state grant revenue.

**Overview of the Financial Statements**

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government support, public safety, transportation, economic assistance and opportunity, culture and recreation, home and community services, and interest and other fiscal charges. The Village reports no business-type activities.

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

The Village maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Special Grant Fund, Water Fund, Wastewater Treatment Fund, and Capital Projects Fund, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

**Notes to the financial statements**—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-37 of this report.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village's net pension liabilities and the Village's budgetary comparison schedules for each major fund with a legally adopted budget. Required

Supplementary Information and a related note to the required supplementary information can be found on pages 38-45 of this report.

### Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a Village’s financial position. In the case of the Village, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,943,522 at the close of the most recent fiscal year, as compared to \$8,093,196 at the close of the fiscal year ended May 31, 2020.

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

**Table 1—Condensed Statements of Net Position**

	May 31,	
	2021	2020
Current assets	\$ 6,360,881	\$ 6,723,291
Capital assets	20,414,494	14,266,891
Total assets	<u>26,775,375</u>	<u>20,990,182</u>
Deferred outflows of resources	<u>4,536,113</u>	<u>3,014,740</u>
Current liabilities	2,174,507	399,970
Noncurrent liabilities	<u>12,824,560</u>	<u>15,258,137</u>
Total liabilities	<u>14,999,067</u>	<u>15,658,107</u>
Deferred inflows of resources	<u>5,368,899</u>	<u>253,619</u>
Net investment in capital assets	11,075,155	6,895,222
Restricted	77,654	-
Unrestricted	<u>(209,287)</u>	<u>1,197,974</u>
Total net position	<u>\$ 10,943,522</u>	<u>\$ 8,093,196</u>

The largest portion of the Village’s net position, \$11,075,155, reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), net of accumulated depreciation and less any related outstanding debt used to acquire those assets. The Village uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the Village’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The next largest portion of the District’s net position, \$77,654, represents resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The remaining portion of the Village’s net position \$(209,287), is considered to be an unrestricted deficit. The deficit does not mean that the Village does not have resources available to meet its obligations in the ensuing year. Rather, it is the result of having long-term commitments that are greater than currently available resources. Payments for these liabilities are to be budgeted for in the year that actual payments will be made.

Table 2, presented below shows the changes in net position for the years ended May 31, 2021 and May 31, 2020.

**Table 2—Condensed Statements of Changes in Net Position**

	Year Ended May 31,	
	2021	2020
Program revenues:		
Charges for services	\$ 4,360,656	\$ 4,323,063
Operating grants and contributions	280,479	1,000
Capital grants and contributions	3,381,728	317,034
General revenues	<u>5,159,203</u>	<u>5,141,162</u>
Total revenues	<u>13,182,066</u>	<u>9,782,259</u>
Program expenses	<u>10,331,740</u>	<u>10,488,816</u>
Change in net position	2,850,326	(706,557)
Net position—beginning	<u>8,093,196</u>	<u>8,799,753</u>
Net position—ending	<u>\$ 10,943,522</u>	<u>\$ 8,093,196</u>

Overall revenues increased by 34.8 percent primarily due to the increase in capital grants and contributions for ongoing projects related to the Village’s wastewater treatment plant. Total program expenses decreased 1.5 percent from the prior year ended May 31, 2020, primarily as a result of a decrease in costs allocated from the change in the net pension liability.

A summary of sources of revenues for the years ended May 31, 2021 and May 31, 2020 is presented below in Table 3.

**Table 3—Summary of Sources of Revenues**

	Year Ended May 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
Charges for services	\$ 4,360,656	\$ 4,323,063	\$ 37,593	0.9
Operating grants and contributions	280,479	1,000	279,479	27,947.9
Capital grants and contributions	3,381,728	317,034	3,064,694	966.7
Real property taxes and tax items	2,833,111	2,850,907	(17,796)	(0.6)
Other nonproperty taxes	1,995,694	2,014,982	(19,288)	(1.0)
Use of money and property	41,958	29,928	12,030	40.2
Sale of property and compensation for loss	117,869	9,625	108,244	1,124.6
Miscellaneous	27,211	96,025	(68,814)	(71.7)
State aid—unrestricted	<u>143,360</u>	<u>139,695</u>	<u>3,665</u>	2.6
Total revenues	<u>\$ 13,182,066</u>	<u>\$ 9,782,259</u>	<u>\$ 3,399,807</u>	34.8

The Village’s most significant source of revenues for the year ended May 31, 2021 were charges for services of \$4,360,656, or 33.1 percent of total revenues, capital grants and contributions of \$3,381,728, or 25.7 percent of total revenues, and real property taxes and tax items of \$2,833,111, or 21.5 percent of total revenues. The Village’s most significant sources of revenue for the year ended May 31, 2020 were

charges for services of \$4,323,063, or 44.2 percent of total revenues, real property taxes and tax items of \$2,850,907, or 29.1 percent of total revenues, and other nonproperty taxes of \$2,014,982, or 20.6 percent of total revenues.

A summary of program expenses for the years ended May 31, 2021 and May 31, 2020 is presented below in Table 4.

**Table 4—Summary of Program Expenses**

	Year Ended May 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
General government support	\$ 1,106,954	\$ 1,101,397	\$ 5,557	0.5
Public safety	4,020,067	4,366,919	(346,852)	(7.9)
Transportation	972,969	1,124,000	(151,031)	(13.4)
Economic assistance and opportunity	330	5,034	(4,704)	(93.4)
Culture and recreation	192,685	202,985	(10,300)	(5.1)
Home and community services	3,864,419	3,439,754	424,665	12.3
Interest and other fiscal charges	174,316	248,727	(74,411)	(29.9)
Total expenses	<u>\$ 10,331,740</u>	<u>\$ 10,488,816</u>	<u>\$ (157,076)</u>	(1.5)

The Village's significant expense items for the year ended May 31, 2021 were public safety of \$4,020,067, or 38.9 percent of total expenses, home and community services of \$3,864,419, or 37.4 percent of total expenses, and general government support of \$1,106,954, or 10.7 percent of total expenses. The Village's most significant expense items for the year ended May 31, 2020 were public safety of \$4,366,919, or 41.6 percent of total expenses, home and community services of \$3,439,754, or 32.8 percent of total expenses, and transportation of \$1,124,000, or 10.7 percent of total expenses.

### Financial Analysis of the Governmental Funds

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

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

At May 31, 2021, the Village's governmental funds reported a combined ending fund balance of \$4,525,004, a decrease of \$1,998,593 from the prior year. Approximately 11.0 percent of this amount (\$495,979) constitutes *unassigned fund balance*, which is available for spending at the Village's discretion. The remainder of fund balance is either *nonspendable*, *restricted* or *assigned* to indicate that it is (1) not in spendable form (\$183,960) (2) restricted for particular purposes (\$77,654) or (3) assigned for particular purposes (\$3,767,411).

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$519,738, while the total fund balance decreased to \$912,990. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned

fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 8.1 percent of total General Fund expenditures, while total fund balance represents 14.3 percent of that same amount. The fund balance of the General Fund decreased \$396,580 primarily due to greater than anticipated employee benefit costs.

The fund balance of the Village’s Special Grant Fund decreased \$122,341 during the year ended May 31, 2021 due to home and community services expenditures exceeding state aid. Total fund balance of \$77,654 is classified as restricted for special grants.

The Water Fund fund balance increased \$176,899 during the year ended May 31, 2021 as a result of departmental income exceeding water system operating expenditures. Total fund balance of \$1,520,349 is classified as nonspendable (\$55,977), assigned for subsequent year’s expenditures (\$86,137) and assigned for specific use (\$1,378,235).

The Sewer Fund fund balance increased \$135,552 during the year ended May 31, 2021, primarily due to departmental income exceeding sewer system operating expenditures. Total fund balance of \$2,037,770 is classified as nonspendable (\$59,837) and assigned for specific use (\$1,977,933).

The Village’s Capital Projects Fund decreased by \$1,792,123, primarily due to capital project expenditures exceeding state aid and other financing sources. Total fund balance deficit of \$23,759 is expected to be remedied as resources are obtained (e.g., from revenues and transfers in).

### General Fund Budgetary Highlights

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

A summary of the General Fund results of operations for the year ended May 31, 2021 is presented below in Table 5.

**Table 5—Summary of General Fund Results of Operations**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues and other financing sources	\$ 6,539,652	\$ 6,539,652	\$ 5,997,721	\$ (541,931)
Expenditures and other financing uses	<u>6,539,652</u>	<u>6,539,652</u>	<u>6,394,301</u>	<u>145,351</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (396,580)</u>	<u>\$ (396,580)</u>

**Final budget compared to actual results**—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yields notable unfavorable variances of \$122,867 in departmental income due to receiving less than anticipated ambulance charges as well as \$399,366 in transfers in due to unavailable revenues combined with \$194,965 of greater than anticipated employee benefits for related to state retirement.

## Capital Asset and Debt Administration

**Capital assets**—The Village’s investment in capital assets for its governmental activities as of May 31, 2021, amounted to \$20,414,494 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment.

All depreciable capital assets were depreciated from acquisition date to the end of the current year.

Capital assets, net of depreciation for the governmental activities at May 31, 2021 and May 31, 2020 are presented in Table 6 below:

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

	May 31,	
	2021	2020
Land	\$ 328,699	\$ 328,699
Construction in progress	9,215,776	2,811,197
Infrastructure	3,651,204	3,720,731
Buildings and improvements	1,942,781	2,283,142
Machinery and equipment	5,276,034	5,123,122
Total	<u>\$ 20,414,494</u>	<u>\$ 14,266,891</u>

Additional information on the Village’s capital assets can be found in Note 4 of this report.

**Long-term debt**—At May 31, 2021, the Village’s net serial bonds and EFC notes payable totaled \$10,166,006 for governmental activities as compared to the prior year’s total of \$9,101,106. The increase of \$1,064,900 is a result of the issuance of \$626,545 in serial bonds to refinance a portion of EFC notes outstanding, and \$2,680,995 in EFC notes payable offset by the conversion of \$619,301 of EFC notes payable to EFC bonds and a principal reduction of \$987,043 which was forgiven and has been recognized as state grant revenue, and premium amortization of \$41,016.

A summary of the Village’s long-term debt liabilities at May 31, 2021 and May 31, 2020 is presented in Table 7 below:

**Table 7—Comparison of Long-Term Liabilities**

	May 31,	
	2021	2020
Serial bonds	\$ 5,591,545	\$ 5,560,280
Premium on serial bonds	<u>377,658</u>	<u>418,674</u>
Net serial bonds payable	5,969,203	5,978,954
Statutory installment bonds	19,464	38,927
EFC notes payable	4,196,803	3,122,152
Compensated absences	1,555,175	1,420,674
Net pension liability	<u>1,083,915</u>	<u>4,697,430</u>
Total	<u>\$ 12,824,560</u>	<u>\$ 15,258,137</u>

Additional information on the Village's long-term liabilities can be found in Note 8 to the financial statements.

### **Economic Factors**

The unemployment rate, not seasonally adjusted, for Chautauqua County during May 2021 was 5.4 percent, as compared to New York State's average unemployment rate of 7.8 percent. These factors are considered in preparing the Village's budget.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Village of Fredonia, 9-11 Church Street, Fredonia, New York 14063.

# BASIC FINANCIAL STATEMENTS



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**VILLAGE OF FREDONIA, NEW YORK**  
**Statement of Net Position**  
**May 31, 2021**

	<u>Primary Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,254,890
Restricted cash and cash equivalents	923,785
Receivables:	
Taxes receivable	180,916
Accounts receivable	1,270,625
Intergovernmental receivables	546,705
Prepaid items	183,960
Capital assets not being depreciated	9,544,475
Capital assets, net of accumulated depreciation	<u>10,870,019</u>
Total assets	<u>26,775,375</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources—relating to pensions	<u>4,536,113</u>
Total deferred outflows of resources	<u>4,536,113</u>
<b>LIABILITIES</b>	
Accounts payable	411,098
Accrued liabilities	148,540
Unearned revenue	1,326,741
Retainage payable	288,128
Noncurrent liabilities:	
Due within one year	801,273
Due within more than one year	<u>12,023,287</u>
Total liabilities	<u>14,999,067</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources—relating to pensions	<u>5,368,899</u>
Total deferred inflows of resources	<u>5,368,899</u>
<b>NET POSITION</b>	
Net investment in capital assets	11,075,155
Restricted for special grant	77,654
Unrestricted	<u>(209,287)</u>
Total net position	<u>\$ 10,943,522</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Statement of Activities**  
**Year Ended May 31, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Activities</u>
<b>Primary government:</b>					
Governmental activities:					
General government support	\$ 1,106,954	\$ 3,688	\$ -	\$ -	\$ (1,103,266)
Public safety	4,020,067	804,462	988	-	(3,214,617)
Transportation	972,969	40,039	-	-	(932,930)
Economic assistance and opportunity	330	-	279,491	-	279,161
Culture and recreation	192,685	2,295	-	-	(190,390)
Home and community services	3,864,419	3,510,172	-	3,381,728	3,027,481
Interest and other fiscal charges	174,316	-	-	-	(174,316)
Total primary government	<u>\$ 10,331,740</u>	<u>\$ 4,360,656</u>	<u>\$ 280,479</u>	<u>\$ 3,381,728</u>	<u>(2,308,877)</u>
General revenues:					
					2,833,111
					1,995,694
					41,958
					117,869
					27,211
					<u>143,360</u>
Total general revenues					<u>5,159,203</u>
					2,850,326
					<u>8,093,196</u>
					<u>\$ 10,943,522</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Balance Sheet—Governmental Funds**  
**May 31, 2021**

	<u>Special Revenue</u>				<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Special Grant</u>	<u>Water</u>	<u>Wastewater Treatment</u>		
<b>ASSETS</b>						
Cash and cash equivalents	\$ 586,584	\$ -	\$ 1,060,918	\$ 1,607,388	\$ -	\$ 3,254,890
Restricted cash and cash equivalents	-	77,654	-	-	846,131	923,785
Receivables:						
Taxes receivable	180,916	-	-	-	-	180,916
Accounts receivable	267,421	-	591,841	411,363	-	1,270,625
Intergovernmental receivables	533,669	-	11,069	1,967	-	546,705
Prepaid items	68,146	-	55,977	59,837	-	183,960
Total assets	<u>\$ 1,636,736</u>	<u>\$ 77,654</u>	<u>\$ 1,719,805</u>	<u>\$ 2,080,555</u>	<u>\$ 846,131</u>	<u>\$ 6,360,881</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 133,058	\$ -	\$ 181,636	\$ 27,046	\$ 69,358	\$ 411,098
Accrued liabilities	64,479	-	17,820	15,739	-	98,038
Unearned revenue	526,209	-	-	-	800,532	1,326,741
Total liabilities	<u>723,746</u>	<u>-</u>	<u>199,456</u>	<u>42,785</u>	<u>869,890</u>	<u>1,835,877</u>
<b>FUND BALANCES (DEFICIT)</b>						
Nonspendable	68,146	-	55,977	59,837	-	183,960
Restricted	-	77,654	-	-	-	77,654
Assigned	325,106	-	1,464,372	1,977,933	-	3,767,411
Unassigned	519,738	-	-	-	(23,759)	495,979
Total fund balances (deficit)	<u>912,990</u>	<u>77,654</u>	<u>1,520,349</u>	<u>2,037,770</u>	<u>(23,759)</u>	<u>4,525,004</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,636,736</u>	<u>\$ 77,654</u>	<u>\$ 1,719,805</u>	<u>\$ 2,080,555</u>	<u>\$ 846,131</u>	<u>\$ 6,360,881</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Reconciliation of the Balance Sheet—Governmental Funds**  
**to the Government-wide Statement of Net Position**  
**May 31, 2021**

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Amounts reported for governmental activities in the statement of net position (page 12) are different because:

Total fund balances (deficit)—governmental funds (page 14)	\$	4,525,004
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. The cost of the assets is \$44,559,652 and the accumulated depreciation is \$24,145,158.		20,414,494
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements.		
Deferred outflows related to employer contributions	\$	143,896
Deferred outflows related to experience, changes in assumptions and investment earnings		4,392,217
Deferred inflows of resources related to pension plans	<u>(5,368,899)</u>	(832,786)
Retained percentages are not a current liability and, therefore, are not reported in the funds.		(288,128)
Net accrued interest expense for serial bonds and statutory installment bonds are not recorded in the funds.		(50,502)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Serial bonds	\$	(5,591,545)
Unamortized bond premium on serial bonds		(377,658)
Statutory installment bonds		(19,464)
EFC notes payable		(4,196,803)
Compensated absences		(1,555,175)
Net pension liability	<u>(1,083,915)</u>	<u>(12,824,560)</u>
Net position of governmental activities	<u>\$</u>	<u>10,943,522</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances (Deficit)—Governmental Funds**  
**Year Ended May 31, 2021**

	Special Revenue				Capital Projects	Total Governmental Funds
	General	Special Grant	Water	Wastewater Treatment		
<b>REVENUES</b>						
Real property taxes	\$ 2,822,996	\$ -	\$ -	\$ -	\$ -	\$ 2,822,996
Real property tax items	10,115	-	-	-	-	10,115
Nonproperty tax items	1,995,694	-	-	-	-	1,995,694
Departmental income	394,763	-	1,669,389	1,794,086	1,460	3,859,698
Intergovernmental charges	427,950	-	-	-	-	427,950
Use of money and property	8,768	2	-	32,701	487	41,958
Licenses and permits	45,997	-	-	-	-	45,997
Fines and forfeitures	27,011	-	-	-	-	27,011
Sale of property and compensation for loss	117,869	-	-	-	-	117,869
Miscellaneous	2,210	-	-	-	25,001	27,211
State aid	144,348	279,491	-	-	3,381,728	3,805,567
Total revenues	<u>5,997,721</u>	<u>279,493</u>	<u>1,669,389</u>	<u>1,826,787</u>	<u>3,408,676</u>	<u>13,182,066</u>
<b>EXPENDITURES</b>						
Current:						
General government support	602,153	-	65,920	73,508	-	741,581
Public safety	2,691,965	-	-	-	-	2,691,965
Transportation	644,165	-	-	-	-	644,165
Economic assistance and opportunity	330	-	-	-	-	330
Culture and recreation	127,116	-	-	-	-	127,116
Home and community services	139,607	401,834	913,523	1,026,415	-	2,481,379
Employee benefits	1,739,494	-	305,679	408,158	-	2,453,331
Debt service:						
Principal	355,965	-	154,560	104,218	1,606,344	2,221,087
Interest and fiscal charges	93,506	-	52,808	78,936	7,244	232,494
Capital outlay	-	-	-	-	6,894,751	6,894,751
Total expenditures	<u>6,394,301</u>	<u>401,834</u>	<u>1,492,490</u>	<u>1,691,235</u>	<u>8,508,339</u>	<u>18,488,199</u>
Excess (deficiency) of revenues over expenditures	<u>(396,580)</u>	<u>(122,341)</u>	<u>176,899</u>	<u>135,552</u>	<u>(5,099,663)</u>	<u>(5,306,133)</u>
<b>OTHER FINANCING SOURCES</b>						
Serial bonds issued	-	-	-	-	626,545	626,545
EFC notes payable issued	-	-	-	-	2,680,995	2,680,995
Total other financing sources	-	-	-	-	<u>3,307,540</u>	<u>3,307,540</u>
Net change in fund balances (deficit)	(396,580)	(122,341)	176,899	135,552	(1,792,123)	(1,998,593)
Fund balances—beginning	<u>1,309,570</u>	<u>199,995</u>	<u>1,343,450</u>	<u>1,902,218</u>	<u>1,768,364</u>	<u>6,523,597</u>
Fund balances (deficit)—ending	<u>\$ 912,990</u>	<u>\$ 77,654</u>	<u>\$ 1,520,349</u>	<u>\$ 2,037,770</u>	<u>\$ (23,759)</u>	<u>\$ 4,525,004</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities**  
**Year Ended May 31, 2021**

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

Net change in fund balances (deficits)—total governmental funds (page 16) \$ (1,998,593)

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

Capital asset additions	\$ 6,901,866	
Depreciation expense	<u>(754,263)</u>	6,147,603

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

Village pension contributions	\$ 703,188	
Cost of benefits earned net of employee contributions	<u>(683,580)</u>	19,608

Governmental funds report retained percentages expenditures on construction contracts when such retained percentage is paid. However, in the statement of activities retained percentages on construction contracts is reported as an expense as it accrues. (155,516)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 17,162

The issuance of long-term debt (e.g. serial bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred amortized into the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Issuance of serial bonds	\$ (626,545)	
Repayment of serial bonds	595,280	
Amortization of bond premium	41,016	
Repayment of statutory installment bonds	19,463	
Issuance of EFC notes payable	(2,680,995)	
EFC notes payable reductions	1,606,344	
Change in compensated absences	<u>(134,501)</u>	<u>(1,179,938)</u>

Change in net position of governmental activities \$ 2,850,326

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

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**VILLAGE OF FREDONIA, NEW YORK**  
**Notes to the Financial Statements**  
**Year Ended May 31, 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Description of Government-wide Financial Statements***

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

***Reporting Entity***

The Village, which was established in 1829, is a unit of local government created by the State of New York. The Village operates under provisions of New York State law and with authority vested by those statutes. The five-member Board of Trustees is the legislative body responsible for overall operations. The Mayor serves as the Chief Executive Officer. The Treasurer serves as Chief Fiscal Officer.

Independently elected officials of the Village include:

Mayor	Village Justice
Trustees (5)	Associate Village Justice

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

The following basic services are provided: fire protection, highway maintenance, sewer, water, street lighting, parks, justice court and general administration. These basic services are financed by various taxes, state and federal aid and departmental revenue (which is primarily comprised of service fees and various types of program-related).

***Excluded from the Financial Reporting Entity***—Although the following is related to the Village, it is not included in the Village reporting entity:

- *Darwin R. Barker Library Association*—The Darwin R. Barker Library Association (the "Library") is not financially accountable to the Village, the Village cannot impose its will on the Library, and the Library is not fiscally dependent on the Village.

### ***Basis of Presentation—Government-wide Financial Statements***

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

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

### ***Basis of Presentation—Fund Financial Statements***

The fund financial statements provide information about the Village's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. At May 31, 2021, all of the Village's funds are considered major funds.

The Village reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of the Village and includes all operations not required to be recorded in other funds. The principal sources of revenue for the General Fund are real property taxes and sales tax.
- *Special Grant Fund*—The Special Grant Fund is used to record loans made and payments received from qualified individuals and businesses in accordance with various guidelines established by the Village.
- *Water Fund*—The Water Fund is used to record all revenues and expenditures related to operation and maintenance of the Village's water districts. The major source of revenue for this fund is departmental income from water charges.
- *Wastewater Treatment Fund*—The Wastewater Treatment Fund is used to record all revenues and expenditures related to operation and maintenance of the Village's sewer districts. The major source of revenue for this fund is departmental income from sewer charges.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities.

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

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the

### ***Measurement Focus and Basis of Accounting***

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

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

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

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

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

***Cash, Cash Equivalents and Investments***—The Village’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. New York State law governs the Village’s investment policies. Permissible investments include obligations of New York State or its localities. The Village had no investments at May 31, 2021; however, it is the Village’s policy to report investments at fair value in accordance with GASB when applicable.

***Restricted Cash and Cash Equivalents***—Restricted cash and cash equivalents represent restricted fund balance, unspent proceeds from the issuance of debt and certain unearned revenues.

***Receivables***—Receivables are recorded and revenues are recognized as earned. Allowances are recorded when appropriate. No allowance for uncollectable accounts has been provided since it is believed that such an allowance would not be material.

**Prepaid Items**—Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than purchased.

**Capital Assets**—Capital assets, which include land, construction in progress, buildings and improvements, machinery and equipment and infrastructure assets (e.g. roads, bridges, drainage systems and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of \$2,500. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition cost. Major outlays of capital assets and improvements are capitalized as projects are completed.

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

<u>Class of Assets</u>	<u>Estimated Useful Life (Years)</u>
Land improvements	20
Buildings	40
Building improvements	20
Machinery and equipment	5 - 20
Infrastructure assets	20 - 50

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

**Deferred Outflows/Inflows of Resources**—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. At May 31, 2021, the Village has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Village’s proportion of the collective net pension liability, the difference during the measurement period between the Village’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At May 31, 2021, the Village has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Village’s proportion of the collective net pension liability and the difference during the measurement periods between the Village’s contributions and its proportionate share of total contributions to the pension systems not included in pension expense and it is reported on the government-wide statements.

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

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

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

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

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

### ***Revenues and Expenses/Expenditures***

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

***Property Taxes***—Village property taxes are levied annually on June 1. The Village tax rate is based on the amount per \$1,000 assessed valuation. Delinquent accounts of sewer billings are transferred to the Village real property tax roll annually for re-levy and collection. Taxes may be paid to the Village between June 1 and September 30.

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

***Compensated Absences***—Pursuant to resolutions of the Board of Trustees and contractual agreements, Village employees are granted vacation, personal leave, and sick leave and earn compensatory absences in varying amounts. Upon retirement, eligible employees qualify for payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

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

***Pensions***—The Village is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

#### ***Other***

***Estimates***—The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets, liabilities, deferred outflows of resources, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements during the reported period. Actual results could differ from those estimates.

***Adoption of New Accounting Pronouncements***—During the year ended May 31, 2021, the Village implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*; No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*; No. 92, *Omnibus 2020*; and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations ("AROs"). GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. GASB Statement No. 88 helps improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 90 helps improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB Statement No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain

GASB Statements. GASB Statement No. 97 increases consistency and comparability related to the reporting of fiduciary component units, mitigates costs associated with the reporting of certain defined contribution plans and enhances the relevance, consistency and comparability of the accounting and reporting for internal Revenue Code Section 457 deferred compensation plans. The implementation of GASB Statements No. 83, 84, 88, 90, 92 and 97 did not have a material impact on the Village's financial position or results from operations.

***Future Impacts of Accounting Pronouncements***—The Village has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, No. 93, *Replacement of Interbank Offered Rates*, and No. 98, *The Annual Comprehensive Report*, effective for the year ending May 31, 2022, No. 87 *Leases*, and No. 91, *Conduit Debt Obligations*, effective for the year ending May 31, 2023, and No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending May 31, 2024. The Village is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 89, 91, 93, 94, 96 and 98 will have on its financial position and results of operations when such statements are adopted.

### ***Stewardship, Compliance and Accountability***

***Legal Compliance—Budgets***—The Village follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- No later than March 20, the budget officer prepares and files a tentative budget with the Village Clerk.
- No later than March 31, the Village Treasurer submits the tentative budget to the Board of Trustees for the fiscal year commencing the following June 1. The tentative budget includes proposed expenditures and the proposed means of financing them.
- A public hearing is required to be held on or before April 15 in order to obtain taxpayer comments.
- By May 1 the Board of Trustees is required to adopt a budget and appended salary and wage schedule.
- The Village Treasurer exercises administrative budgetary control throughout the year. Adjustment of programs or appropriations is made only after an appropriation and transfer resolution is adopted by the Board of Trustees. The Board of Trustees, pursuant to the laws of the State of New York, has the authority to establish rates for water and sewer department services.
- During the fiscal year, the Board of Trustees can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for object level budgetary control. All modifications to the budget must be approved by the Board of Trustees. Revisions to the budget were made throughout the year.

***Deficit Fund Balance***—At May 31, 2021, the Capital Projects Fund reported a deficit fund balance of \$(23,759). The deficit is caused by capital outlay expenditures exceeding resources available. This deficit will be eliminated as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in).

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Cash and cash equivalents at May 31, 2021, are as follows:

	Governmental Funds
Petty cash (uncollateralized)	\$ 400
Deposits	<u>4,178,275</u>
Total	<u>\$ 4,178,675</u>

**Deposits**—All deposits are carried at fair value, and are classified by custodial credit risk at May 31, 2021 as follows:

	Bank Amount	Carrying Balance
FDIC insured	\$ 420,064	\$ 420,064
Uninsured:		
Collateral held by pledging bank's agent in the Village's name	<u>3,826,349</u>	<u>3,758,211</u>
Total	<u>\$ 4,246,413</u>	<u>\$ 4,178,275</u>

**Custodial Credit Risk—Deposits**—Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of May 31, 2021, the Village's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the Village's name.

**Restricted Cash, Cash Equivalents, and Investments**—The Village reports fund balance, unspent proceeds of debt and certain unearned revenues as restricted cash and cash equivalents. At May 31, 2021, the Village reported \$526,209, \$77,654, and \$846,131 of restricted cash and cash equivalents within the General Fund, Special Grant Fund, and Capital Projects Fund. The Village had no investments at May 31, 2021.

**Investments**—The Village had no investments at May 31, 2021.

**Interest Rate Risk**—In accordance with its investment policy, the Village manages exposures by limiting investments to low risk type investments governed by New York State statutes.

### 3. RECEIVABLES

Major revenues accrued by the Village at May 31, 2021 consisted of the following:

**Receivables**—Represents amounts due from various sources. Receivables at May 31, 2021 are presented below:

General Fund:			
Taxes receivable	\$	180,916	
Other receivables		<u>267,421</u>	<u>\$ 448,337</u>
Water Fund:			
Water rents receivable			<u>\$ 591,841</u>
Wastewater Treatment Fund:			
Sewer rents receivable			<u>\$ 411,363</u>

**Intergovernmental Receivables**—Represents amounts due from other units of government, such as Federal, New York State, County of Chautauqua, or other local governments. Intergovernmental receivables at May 31, 2021 are as shown below:

General Fund:			
Federal Government passed through			
New York State—American Rescue Plan	\$	526,209	
New York State—Urban Vantage Grant		6,000	
Town of Pomfret		<u>1,460</u>	<u>\$ 533,669</u>
Water Fund:			
Town of Pomfret			<u>\$ 11,069</u>
Wastewater Treatment Fund:			
Town of Pomfret			<u>\$ 1,967</u>

#### 4. CAPITAL ASSETS

Capital asset activity for the Village's governmental activities for the year ended May 31, 2021 was as follows:

	Balance 6/1/2020	Additions	Deletions	Balance 5/31/2021
Capital assets, not being depreciated:				
Land	\$ 328,699	\$ -	\$ -	\$ 328,699
Construction in progress	<u>2,811,197</u>	<u>6,897,016</u>	<u>492,437</u>	<u>9,215,776</u>
Total capital assets, not being depreciated	<u>3,139,896</u>	<u>6,897,016</u>	<u>492,437</u>	<u>9,544,475</u>
Capital assets, being depreciated:				
Infrastructure	5,294,794	55,788	-	5,350,582
Buildings and improvements	14,210,518	-	-	14,210,518
Machinery and equipment	<u>15,012,578</u>	<u>441,499</u>	<u>-</u>	<u>15,454,077</u>
Total capital assets, being depreciated	<u>34,517,890</u>	<u>497,287</u>	<u>-</u>	<u>35,015,177</u>
Less accumulated depreciation for:				
Infrastructure	1,574,063	125,315	-	1,699,378
Buildings and improvements	11,927,376	340,361	-	12,267,737
Machinery and equipment	<u>9,889,456</u>	<u>288,587</u>	<u>-</u>	<u>10,178,043</u>
Total accumulated depreciation	<u>23,390,895</u>	<u>754,263</u>	<u>-</u>	<u>24,145,158</u>
Total capital assets, being depreciated, net	<u>11,126,995</u>	<u>(256,976)</u>	<u>-</u>	<u>10,870,019</u>
Total capital assets, net	<u>\$ 14,266,891</u>	<u>\$ 6,640,040</u>	<u>\$ 492,437</u>	<u>\$ 20,414,494</u>

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

Governmental activities:	
General government support	\$ 83,908
Public safety	303,456
Transportation	72,774
Culture and recreation	14,093
Home and community services	<u>280,032</u>
Total	<u>\$ 754,263</u>

The Village used historical information to estimate depreciation expense and accumulated depreciation as of May 31, 2021. Additionally, capital assets consisting of certain infrastructure types, including roads, bridges, water and sewer systems, have not been capitalized.

## 5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at May 31, 2021, were as follows:

	General Fund	Water Fund	Wastewater Treatment Fund	Total Governmental Funds
Salaries and employee benefits	<u>\$ 64,479</u>	<u>\$ 17,820</u>	<u>\$ 15,739</u>	<u>\$ 98,038</u>

## 6. PENSION PLANS

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

The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31.

***Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—***At May 31, 2021, the Village reported the liability presented on the following page for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2021. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2020, with update procedures used to roll forward the total net pension liabilities to the measurement date. The Village’s proportion of the net pension liabilities were based on a projection of the Village’s long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the Systems in reports provided to the Village.

	PFRS	ERS
Measurement date	March 31, 2021	March 31, 2021
Net pension liability	\$ 1,077,211	\$ 6,704
Village's portion of the Plan's total net pension liability	0.0620415%	0.0067328%

For the year ended May 31, 2021, the Village recognized a pension expense of \$551,632 and \$164,455, respectively, for PFRS and ERS. At May 31, 2021, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	\$ 239,027	\$ 81,875	\$ -	\$ -
Changes of assumptions	2,646,591	1,232,666	-	23,248
Net difference between projected and actual earnings on pension plan investments	-	-	3,167,476	1,925,810
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	145,614	46,444	226,036	26,329
Village contributions subsequent to the measurement date	94,891	49,005	-	-
<b>Total</b>	<u>\$ 3,126,123</u>	<u>\$ 1,409,990</u>	<u>\$ 3,393,512</u>	<u>\$ 1,975,387</u>

The Village's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending May 31,	PFRS	ERS
2022	\$ (156,835)	\$ (107,113)
2023	(36,889)	(33,965)
2024	(126,717)	(101,910)
2025	(570,411)	(371,414)
2026	528,572	-

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

	PFRS	ERS
Measurement date	March 31, 2021	March 31, 2021
Actuarial valuation date	April 1, 2020	April 1, 2020
Interest rate	5.90%	5.90%
Salary scale	6.20%	4.40%
Decrement tables	April 1, 2015- March 31, 2020	April 1, 2015- March 31, 2020
Inflation rate	2.7%	2.7%
Cost-of-living adjustments	1.4%	1.4%

Annuitant mortality rates are based on April 1, 2015 – March 31, 2020 Systems’ experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2020. The actuarial assumptions used in the April 1, 2020 valuation are based on the results of an actuarial experience study for the period April 1, 2015 – March 31, 2020.

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

	PFRS and ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
Measurement date	March 31, 2021	
Asset class:		
Domestic equities	32.0 %	4.1 %
International equities	15.0	6.3
Private equity	10.0	6.8
Real estate	9.0	5.0
Opportunistic/Absolute return strategy	3.0	4.5
Credit	4.0	3.6
Real assets	3.0	6.0
Fixed income	23.0	0.0
Cash	1.0	0.5
Total	100.0 %	

**Discount Rate**—The discount rate used to calculate the total pension liability was 5.9%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to the Discount Rate Assumption**—The chart below presents the Village’s proportionate share of the net pension liability/(asset) calculated using the discount rate of 5.9%, as well as what the Village’s proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage-point lower (4.9%) or one percentage-point higher (6.9%) than the current assumption.

	1% Decrease (4.9%)	Current Assumption (5.9%)	1% Increase (6.9%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	\$ 4,580,909	\$ 1,077,211	\$ (1,822,945)
Employer's proportionate share of the net pension liability/(asset)—ERS	\$ 1,860,804	\$ 6,704	\$ (1,703,209)

**Pension Plan Fiduciary Net Position**—The components of the current-year net pension liability of the employers as of the respective valuation date, were as follows:

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2020	April 1, 2020	
Employers' total pension liability	\$ 41,236,775	\$ 220,680,157	\$ 261,916,932
Plan fiduciary net position	39,500,500	220,580,583	260,081,083
Employers' net pension liability	<u>\$ 1,736,275</u>	<u>\$ 99,574</u>	<u>\$ 1,835,849</u>
System fiduciary net position as a percentage of total pension liability	95.8%	100.0%	99.3%

## 7. RISK MANAGEMENT

The Village is exposed to various risks of losses related to damage and destruction of assets, injuries to employees, and natural disasters. The Village purchases commercial insurance to cover such potential risks. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded commercial insurance coverage in the past four fiscal years.

The Village purchases various insurance policies for, but not limited to: property, equipment, crime, general liability, umbrella, professional liability, and automobile. Property and equipment insurance is based on assessed value of specific items with deductibles ranging from \$1,000 to \$10,000. The Crime policy has a limit of \$100,000 and \$500 deductible. General liability, umbrella and professional liability insurance has limits ranging from \$10,000 to \$10 million depending on the type of loss with deductibles ranging from zero to \$1,000. Automobile insurance coverage ranges from \$50,000 to \$1,000,000 based on the type of loss.

## 8. LONG-TERM LIABILITIES

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

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

The Village's outstanding long-term liabilities include serial bonds, statutory installment bonds, Environmental Facilities Corporation ("EFC") notes payable, compensated absences and net pension liabilities. The serial bonds of the Village are secured by its general credit and revenue raising powers, as per New York State statute.

A summary of changes in the Village's long-term debt at May 31, 2021 is presented below:

	Balance 6/1/2020	Additions	Reductions	Balance 5/31/2021	Due Within One Year
Serial bonds	\$ 5,560,280	\$ 626,545	\$ 595,280	\$ 5,591,545	\$ 572,545
Premium on serial bonds	418,674	-	41,016	377,658	41,016
Net serial bonds payable	5,978,954	626,545	636,296	5,969,203	613,561
Statutory installment bonds	38,927	-	19,463	19,464	19,464
EFC notes payable	3,122,152	2,680,995	1,606,344	4,196,803	-
Compensated absences*	1,420,674	134,501	-	1,555,175	168,248
Net pension liability*	4,697,430	-	3,613,515	1,083,915	-
Total	<u>\$ 15,258,137</u>	<u>\$ 3,442,041</u>	<u>\$ 5,875,618</u>	<u>\$ 12,824,560</u>	<u>\$ 801,273</u>

\*Current year activity for compensated absences and the net pension liability is being shown net.

**Serial Bonds**—The Village issues general obligation bonds to provide funds for the acquisition, construction and renovation of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 10 to 20 years. Principal is paid annually, interest is paid semi-annually and are recorded in the General Fund, Water Fund, and Wastewater Treatment Fund.

In the event of a default in the payment of the principal of or interest on the serial bonds, the ability of the Village to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the bonds could be adversely affected.

The Village does not hold any lines of credit.

On November 1, 2020, the Village issued \$626,545 in EFC bonds with interest rates ranging from 0.25 to 2.69 percent. This converted \$619,301 of EFC notes payable to long-term financing. Principal payments began on April 1, 2021 and the bonds mature on April 1, 2050.

A summary of additions and payments for the year ended May 31, 2021 is presented below:

Description	Year of Issue/Maturity	Interest Rate (%)	Original Issue Amount	Principal Outstanding 6/1/2020	Additions	Payments	Principal Outstanding 5/31/2021
2015 serial bonds	2015/2021	1.63	\$ 396,314	\$ 35,000	\$ -	\$ 35,000	\$ -
2015 serial bonds - fire engine	2015/2030	2.80	236,956	176,000	-	16,000	160,000
2019 serial bonds	2019/2040	2.00-2.25	2,410,000	2,400,000	-	170,000	2,230,000
2019 refunding serial bonds	2019/2030	2.00-5.00	2,949,280	2,949,280	-	354,280	2,595,000
2020 EFC bonds	2020/2050	0.25-2.69	626,545	-	626,545	20,000	606,545
Total			<u>\$ 6,619,095</u>	<u>\$5,560,280</u>	<u>\$ 626,545</u>	<u>\$ 595,280</u>	<u>\$5,591,545</u>

**Statutory Installment Bonds**—This amount represents financing for equipment. The outstanding balance at May 31, 2021 was \$19,464. The final payment is due in 2022.

**Environmental Facilities Corporation Notes Payable**—During the year ended May 31, 2021, the Village issued \$2,680,995 of EFC notes payable. The notes carry variable interest rates from 0.0 to 2.0 percent. Additionally, \$619,301 of previously outstanding EFC notes payable was converted to EFC bonds and \$987,043 was forgiven and has been recognized as state grant revenue. At May 31, 2021, the Village does not have any additional EFC notes payable available for projects.

A summary of EFC notes payable transactions of the Village for the fiscal year ended May 31, 2021 is presented below:

Purpose	Fiscal Year of Issue/Maturity	Interest Rate (%)	Balance 6/1/2020	Issues	Redemptions	Balance 5/31/2021
EFC Notes—emergency water line	2019/2030	0.00-2.00	\$ 1,575,016	\$ 31,328	\$ 1,606,344	\$ -
EFC Notes—waste water treatment	2020/2030	0.00-2.00	1,547,136	2,028,981	-	3,576,117
EFC Notes—filtration plant	2021/2030	0.00-2.00	-	620,686	-	620,686
			<u>\$ 3,122,152</u>	<u>\$ 2,680,995</u>	<u>\$ 1,606,344</u>	<u>\$ 4,196,803</u>

**Compensated Absences**—As explained in Note 1, the Village records the value of compensated absences. The annual budgets of the respective funds of which the employees' payroll is recorded provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at May 31, 2021, for governmental activities is \$1,555,175. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable; however, management has estimated the current portion of this liability to be \$168,248. Management believes that funds will be available to meet such payments as they become due.

**Net Pension Liability**—The Village reports a liability for its proportionate share of the net pension liabilities for the Employees' Retirement System and Police and Fire Retirement System. The total pension liability is estimated to be \$1,083,915. Refer to Note 6 for additional information related to the Village's net pension liabilities.

The following is a maturity schedule of the Village's indebtedness:

Year Ending May 31,	Serial Bonds	Premium on Serial Bonds	Statutory Installment Bonds	EFC Notes Payable	Compensated Absences	Net Pension Liability	Total
2022	\$ 572,545	\$ 41,016	\$ 19,464	\$ -	\$ 168,248	\$ -	\$ 801,273
2023	581,000	41,016	-	-	-	-	622,016
2024	491,000	41,016	-	-	-	-	532,016
2025	501,000	41,016	-	-	-	-	542,016
2026	396,000	41,016	-	-	-	-	437,016
2027-2031	1,975,000	166,479	-	-	-	-	2,141,479
2032-2036	505,000	3,676	-	-	-	-	508,676
2037-2041	360,000	2,423	-	-	-	-	362,423
2042-2046	110,000	-	-	-	-	-	110,000
2047-2050	100,000	-	-	-	-	-	100,000
Thereafter	-	-	-	4,196,803	1,386,927	1,083,915	6,667,645
Total	<u>\$ 5,591,545</u>	<u>\$ 377,658</u>	<u>\$ 19,464</u>	<u>\$ 4,196,803</u>	<u>\$ 1,555,175</u>	<u>\$ 1,083,915</u>	<u>\$ 12,824,560</u>

Interest requirements on serial bonds payable are as follows:

Year Ending May 31,	Serial Bonds	Statutory Installment Bonds
2022	\$ 169,025	\$ 535
2023	152,084	-
2024	134,732	-
2025	122,028	-
2026	108,943	-
2027-2031	322,005	-
2032-2036	100,361	-
2037-2041	51,598	-
2042-2046	23,280	-
2047-2050	6,728	-
Total	<u>\$ 1,190,784</u>	<u>\$ 535</u>

## 9. NET POSITION AND FUND BALANCE

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

- **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. A reconciliation of the Village's governmental activities net investment in capital assets is presented on the following page.

Capital assets, net of accumulated depreciation	\$ 20,414,494
Add:	
Unspent proceeds	846,131
Less:	
Serial bonds	(5,591,545)
Premium on serial bonds	(377,658)
Statutory installment bonds	(19,464)
EFC notes payable	<u>(4,196,803)</u>
Net investment in capital assets	<u>\$ 11,075,155</u>

- **Restricted Net Position**—This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At May 31, 2021, the Village’s governmental activities reported \$77,654 of restricted net position.
- **Unrestricted Net Position**—This category represents net position of the Village not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the Village at May 31, 2021 includes:

- **Prepaid Items**—Represents the portion of fund balance composed of prepaid expenses that are applicable to future accounting periods. The General Fund, Water Fund, and Wastewater Treatment Fund reported \$68,146, \$55,977, and \$59,837, respectively, of nonspendable fund balance at May 31, 2021.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At May 31, 2021, the Village reported the following restricted fund balances:

- **Restricted for Special Grant**—Represents economic development grant funds, \$77,654, within the Special Grant Fund, which are required to be maintained intact.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the Village’s highest level of decision-making authority. At May 31, 2021, the Village reported no committed fund balance.

In the fund financial statements, assignments are not legally required segregations; but are segregated for a specific purpose by the Village. Assigned funds represent amounts intended to be used for a specific purpose. In the fund financial statements, assignments by the Village at May 31, 2021 include the amounts shown on the following page.

	General Fund	Water Fund	Wastewater Treatment Fund	Total Governmental Funds
Subsequent year's expenditures	\$ 325,106	\$ 86,137	\$ -	\$ 411,243
Specific use	-	1,378,235	1,977,933	3,356,168
Total	\$ 325,106	\$ 1,464,372	\$ 1,977,933	\$ 3,767,411

- **Assigned to Subsequent Year's Expenditures**—Represents available fund balance being appropriated to meet expenditure requirements in the 2021-2022 fiscal year.
- **Assigned to Specific Use**—Represents remaining fund balance within special revenue funds that is assigned for each fund's specific purpose.

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

## 10. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. At May 31, 2021 the Village had no interfund receivables or payables.

## 11. LABOR CONTRACTS

Village employees are represented by three bargaining units. The Civil Service Employees Association Local 807 has a contract settled through May 31, 2020; the Fredonia Professional Fire Fighters Association Local 2931 has a contract settled through May 31, 2021 and Fredonia Police Benevolent Association has a contract settled through May 31, 2025.

## 12. COMMITMENTS

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

The Village considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of May 31, 2021, the Village reported no encumbrances.

### 13. CONTINGENCIES

**Litigation**—The Village is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the Village. The Village believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Village’s financial condition or results of operation.

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

### 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2021, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

\* \* \* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION



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**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of the Village's Proportionate Share of the**  
**Net Pension Liability—Police and Fire Retirement System**  
**Last Eight Fiscal Years\***

	Year Ended May 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Measurement date	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Village's proportion of the net pension liability	0.0620415%	0.0550432%	0.0560086%	0.0572472%	0.0514290%	0.0509000%	0.0465433%	0.0465433%
Village's proportionate share of the net pension liability	<u>\$ 1,077,211</u>	<u>\$ 2,942,024</u>	<u>\$ 939,300</u>	<u>\$ 578,630</u>	<u>\$ 1,065,944</u>	<u>\$ 1,507,040</u>	<u>\$ 128,115</u>	<u>\$ 193,764</u>
Village's covered payroll	\$ 2,089,255	\$ 1,973,396	\$ 2,231,468	\$ 2,183,640	\$ 2,115,029	\$ 2,015,155	\$ 1,903,955	\$ 1,886,904
Village's proportionate share of the net pension liability as a percentage of its covered payroll	51.6%	149.1%	42.1%	26.5%	50.4%	74.8%	6.7%	10.3%
Plan fiduciary net position as a percentage of the total pension liability	95.8%	84.9%	95.1%	96.9%	93.5%	90.2%	99.0%	98.5%

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of the Village's Contributions—**  
**Police and Fire Retirement System**  
**Last Eight Fiscal Years\***

	Year Ended May 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 442,270	\$ 432,540	\$ 423,989	\$ 437,872	\$ 405,730	\$ 554,369	\$ 455,037	\$ 436,752
Contributions in relation to the contractually required contribution	<u>(442,270)</u>	<u>(432,540)</u>	<u>(423,989)</u>	<u>(437,872)</u>	<u>(405,730)</u>	<u>(554,369)</u>	<u>(455,037)</u>	<u>(436,752)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village's covered payroll	\$ 2,147,518	\$ 1,978,825	\$ 2,231,468	\$ 2,183,640	\$ 2,115,029	\$ 2,015,155	\$ 1,903,955	\$ 1,886,904
Contributions as a percentage of covered payroll	20.6%	21.9%	19.0%	20.1%	19.2%	27.5%	23.9%	23.1%

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

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

	<b>Year Ended May 31,</b>							
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Measurement date	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Village's proportion of the net pension liability	0.0067328%	0.0066290%	0.0060933%	0.0054688%	0.0057917%	0.0065094%	0.0072654%	0.0072654%
Village's proportionate share of the net pension liability	<u>\$ 6,704</u>	<u>\$ 1,755,406</u>	<u>\$ 431,730</u>	<u>\$ 176,501</u>	<u>\$ 544,205</u>	<u>\$ 1,044,771</u>	<u>\$ 245,445</u>	<u>\$ 328,315</u>
Village's covered payroll	\$ 2,051,895	\$ 1,882,911	\$ 1,804,937	\$ 1,661,041	\$ 1,674,811	\$ 1,841,874	\$ 1,737,525	\$ 1,939,598
Village's proportionate share of the net pension liability as a percentage of its covered payroll	0.3%	93.2%	23.9%	10.6%	32.5%	56.7%	14.1%	16.9%
Plan fiduciary net position as a percentage of the total pension liability	100.0%	86.4%	96.3%	98.2%	94.7%	90.7%	97.9%	97.2%

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

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

	Year Ended May 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 260,918	\$ 245,006	\$ 223,038	\$ 198,956	\$ 262,174	\$ 373,241	\$ 380,928	\$ 336,953
Contributions in relation to the contractually required contribution	<u>(260,918)</u>	<u>(245,006)</u>	<u>(223,038)</u>	<u>(198,956)</u>	<u>(262,174)</u>	<u>(373,241)</u>	<u>(380,928)</u>	<u>(336,953)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village's covered payroll	\$ 2,042,658	\$ 1,924,323	\$ 1,804,937	\$ 1,661,041	\$ 1,674,811	\$ 1,841,874	\$ 1,737,525	\$ 1,939,598
Contributions as a percentage of covered payroll	12.8%	12.7%	12.4%	12.0%	15.7%	20.3%	21.9%	17.4%

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances—Budget and Actual—General Fund**  
**Year Ended May 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>with Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Real property taxes	\$ 2,822,995	\$ 2,822,995	\$ 2,822,996	\$ 1
Real property tax items	72,000	72,000	10,115	(61,885)
Non property tax items	1,900,000	1,900,000	1,995,694	95,694
Departmental income	517,630	517,630	394,763	(122,867)
Intergovernmental charges	433,570	433,570	427,950	(5,620)
Use of money and property	42,500	42,500	8,768	(33,732)
Licenses and permits	43,700	43,700	45,997	2,297
Fines and forfeitures	70,000	70,000	27,011	(42,989)
Sale of property and compensation for loss	54,000	54,000	117,869	63,869
Miscellaneous	38,751	38,751	2,210	(36,541)
State aid	145,140	145,140	144,348	(792)
Total revenues	<u>6,140,286</u>	<u>6,140,286</u>	<u>5,997,721</u>	<u>(142,565)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	550,685	586,685	602,153	(15,468)
Public safety	2,775,918	2,735,218	2,691,965	43,253
Transportation	696,758	654,358	644,165	10,193
Economic assistance and opportunity	5,000	400	330	70
Culture and recreation	179,303	141,053	127,116	13,937
Home and community services	154,364	147,264	139,607	7,657
Employee benefits	1,544,529	1,544,529	1,739,494	(194,965)
Debt service:				
Principal	353,066	353,066	355,965	(2,899)
Interest and fiscal charges	55,384	377,079	93,506	283,573
Total expenditures	<u>6,315,007</u>	<u>6,539,652</u>	<u>6,394,301</u>	<u>145,351</u>
Deficiency of revenues over expenditures	<u>(174,721)</u>	<u>(399,366)</u>	<u>(396,580)</u>	<u>2,786</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	399,366	399,366	-	(399,366)
Transfers out	(224,645)	-	-	-
Total other financing sources (uses)	<u>174,721</u>	<u>399,366</u>	<u>-</u>	<u>(399,366)</u>
Net change in fund balances	-	-	(396,580)	(396,580)
Fund balances—beginning	<u>1,309,570</u>	<u>1,309,570</u>	<u>1,309,570</u>	<u>-</u>
Fund balances—ending	<u>\$ 1,309,570</u>	<u>\$ 1,309,570</u>	<u>\$ 912,990</u>	<u>\$ (396,580)</u>

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances—Budget and Actual—Water Fund**  
**Year Ended May 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>with Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Departmental income	\$ 1,824,000	\$ 1,824,000	\$ 1,669,389	\$ (154,611)
Total revenues	<u>1,824,000</u>	<u>1,824,000</u>	<u>1,669,389</u>	<u>(154,611)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	110,762	110,762	65,920	44,842
Home and community service	1,096,313	1,096,313	913,523	182,790
Employee benefits	377,205	383,205	305,679	77,526
Debt service:				
Principal	154,817	148,817	154,560	(5,743)
Interest and fiscal charges	74,108	74,108	52,808	21,300
Total expenditures	<u>1,813,205</u>	<u>1,813,205</u>	<u>1,492,490</u>	<u>320,715</u>
Excess of revenues over expenditures	<u>10,795</u>	<u>10,795</u>	<u>176,899</u>	<u>166,104</u>
<b>OTHER FINANCING USES</b>				
Transfers in	238,123	238,123	-	(238,123)
Transfers out	(116,500)	(116,500)	-	116,500
Total other financing uses	<u>121,623</u>	<u>121,623</u>	<u>-</u>	<u>116,500</u>
Net change in fund balances*	132,418	132,418	176,899	282,604
Fund balances—beginning	<u>1,343,450</u>	<u>1,343,450</u>	<u>1,343,450</u>	<u>-</u>
Fund balances—ending	<u>\$ 1,475,868</u>	<u>\$ 1,475,868</u>	<u>\$ 1,520,349</u>	<u>\$ 282,604</u>

\*The net change in fund balances was included in the budget as an increase of fund balance.

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances—Budget and Actual—Wastewater Treatment Fund**  
**Year Ended May 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Departmental income	\$ 1,885,927	\$ 1,885,927	\$ 1,794,086	\$ (91,841)
Miscellaneous	8,000	8,000	-	(8,000)
Total revenues	<u>1,893,927</u>	<u>1,893,927</u>	<u>1,826,787</u>	<u>(67,140)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	118,573	118,573	73,508	45,065
Home and community services	1,147,546	1,123,046	1,026,415	96,631
Employee benefits	417,781	442,281	408,158	34,123
Debt service:				
Principal	141,861	133,711	104,218	29,493
Interest and fiscal charges	70,807	78,957	78,936	21
Total expenditures	<u>1,896,568</u>	<u>1,896,568</u>	<u>1,691,235</u>	<u>205,333</u>
Excess (deficiency) of revenues over expenditures	<u>(2,641)</u>	<u>(2,641)</u>	<u>135,552</u>	<u>138,193</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	97,605	97,605	-	(97,605)
Transfers out	(25,000)	(25,000)	-	25,000
Total other financing sources (uses)	<u>72,605</u>	<u>72,605</u>	<u>-</u>	<u>25,000</u>
Net change in fund balances*	69,964	69,964	135,552	163,193
Fund balances—beginning	<u>1,902,218</u>	<u>1,902,218</u>	<u>1,902,218</u>	<u>-</u>
Fund balances—ending	<u>\$ 1,972,182</u>	<u>\$ 1,972,182</u>	<u>\$ 2,037,770</u>	<u>\$ 163,193</u>

\*The net change in fund balances was included in the budget as an increase of fund balance.

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

**VILLAGE OF FREDONIA, NEW YORK**  
**Note to the Required Supplementary Information**  
**Year Ended May 31, 2021**

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**1. BUDGETARY INFORMATION**

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

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

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

***Excess of Expenditures over Appropriations***

During the year ended May 31, 2021, certain items exceeded the adjusted budget and are shown below:

- General Fund general government expenditures exceed the final budget by \$15,468. This difference was a result of greater than anticipated insurance costs.
- General Fund employee benefit expenditures exceed the final budget by \$194,965. This difference was a result of increased costs associated with the state retirement and workers’ compensation expenditures.
- General Fund principal payments exceed the final budget by \$2,899. This difference was a result of a principal payment that was not included in the budget.
- Water Fund principal payments exceed the final budget by \$5,743. This difference was a result of a principal payment that was not included in the budget.

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Certified Public Accountants

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

Honorable Board of Trustees  
Village of Fredonia, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Village of Fredonia, New York (the "Village") as of and for the year ended May 31, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated November 9, 2021 (which report contains an adverse opinion on governmental activities).

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001 and 2021-002 that we consider to be material weaknesses.

## **Compliance and Other Matters**

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

## **The Village's Response to Findings**

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Drescher & Malecki LLP*

November 9, 2021

**VILLAGE OF FREDONIA, NEW YORK**  
**Schedule of Findings**  
**Year Ended May 31, 2021**

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*We consider the deficiencies presented below to be material weaknesses in internal control.*

**Finding 2021-001—Capital Assets**

*Criteria:* Governmental Accounting Standards Board (“GASB”) standards require that the Village appropriately capitalize its capital assets and record the related depreciation on depreciable assets.

*Condition and Context:* The Village does not maintain capital asset records in a comprehensive manner that can be used for financial statement reporting purposes in accordance with GASB standards.

*Cause:* The Village has relied on estimates and appraisal reports provided by a third party to report capital assets in the past. With a change in management during the year ended May 31, 2020, the Village was unable to reconcile available capital asset information to the May 31, 2019 financial statements or use that information to produce information for the subsequent financial statements.

*Effect or Potential Effect:* The Village’s financial statements do not present fairly the financial position, and the changes in financial position, of the Village’s governmental activities, fairly and in conformity with accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend that the Village performs an inventory of capital assets that meet the recognition criteria of GASB and record the appropriate depreciation of those assets.

*Management’s Response:* The Village is currently in the process of weighing the costs and benefits associated with performing a capital asset inventory to extent that would be required by GAAP.

**Finding 2021-002—Policies and Procedures**

*Criteria:* Internal controls over financial reporting should be designed by management to prevent or detect and correct misstatements and to comply with GASB requirements. The Village should formalize accounting policies and procedures to reduce the risk of financial statement misstatement, asset misappropriation, fraudulent financial reporting, and to ensure that proper procedures are consistently followed.

*Condition and Context:* The Village does not have formal policies and procedures documented for critical accounting cycles including journal entries, bank reconciliations and review of accruals. As a result, journal entries posted to the accounting system and bank reconciliations were not consistently reviewed by an employee independent from the preparer and bank reconciliations were not reconciled to general ledger cash balances in a timely manner. Additionally, several accruals within the general ledger were not reviewed annually or supported by documentation.

*Cause:* Lack of formalized policies and procedures for the year ended May 31, 2021. The presence of several material adjusting journal entries identified during the audit of the year ended May 31, 2021 indicates insufficient utilization of GASB standards and Generally Accepted Accounting Principles (“GAAP”).

*Effect:* Increased risk of financial statement misstatement, asset misappropriation and fraudulent financial reporting. The financial statements include several adjusting entries, which have a material effect on the Village's financial statements.

**Recommendation:** We recommend that the Village formalize policies and procedures related to each accounting cycle. Included within these policies and procedures should be the assessment and evaluation of internal controls, to ensure that controls surrounding key accounting functions are regularly revisited to provide assurance that they are designed effectively and operating efficiently. Such policies should be approved by the Village Board of Trustees, reviewed, and updated on a regular basis.

In addition:

All journal entries should be reviewed and approved by an individual independent of the employee who prepared the journal entry. The entry should be accompanied by supporting documentation. The reviewer should have adequate knowledge surrounding accounting transactions to be able to properly review and approve the entries made.

A formal written bank reconciliation policy should detail bank reconciliation procedures and the responsibilities of the designated employees. We suggest that all bank reconciliations be performed monthly, within 15 days of receiving the respective bank statements and any differences between net bank balances and general ledger cash accounts should be researched and addressed. The reconciliations should be performed by an employee or official who does not have custody or access to cash and who does not record cash receipt, cash disbursement, or journal entry transactions. Finally, all bank reconciliations should be reviewed in a timely manner by management.

All accruals should be reviewed annually for appropriateness and reasonableness of collectability. Amounts should be supported by formal documentation.

**Management's Corrective Action Plan:** The Village is currently in the process of reviewing its operations and will begin the process of formalizing policies and procedures during the next fiscal year.