
Certified Public Accountants

August 16, 2016

Honorable Supervisor and Town Board
Town of Lewiston, New York:

We have audited the financial statements of the Town of Lewiston, New York (the “Town”) as of and for the year ended December 31, 2015, and have issued our report thereon dated August 16, 2016, which report includes a disclaimer of opinion on the results of operations. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 22, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Town solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings and comments regarding a material weakness and significant deficiencies over financial reporting and other matters noted during our audit in separate communications to you dated August 16, 2016.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Town is included in Note 1 to the financial statements. Except for the matters discussed below, there have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2015. As described in Note 2 and Note 6 to the financial statements, during the year, the Town changed its method of accounting for pensions by adopting Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 improve accounting and financial reporting of governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Additionally, based on a valuation of the Town's capital assets performed during the year ended December 31, 2015, the Town has restated net position of governmental activities as of December 31, 2014. Additionally, as of December 31, 2014, the Town restated its net position to include long-term liabilities for compensated absences within its governmental activities. Previously, this liability was excluded.

As a result, net position at December 31, 2014 has been restated to include the net effect of the net pension liability, deferred outflow of resources, and net effects of the capital assets and compensated absences adjustments at December 31, 2014 as summarized below:

	<u>Governmental Activities Net Position</u>
Net position—December 31, 2014, as previously stated	\$ 6,176,019
GASB Statements No. 68 and No. 71 implementation:	
Beginning system liability—Employees' Retirement System	(580,809)
Beginning system liability—Police and Fire Retirement System	(120,254)
Beginning deferred outflow of resources for contributions subsequent to the measurement date:	
Employees' Retirement System	559,404
Police and Fire Retirement System	141,125
Capital assets restatement	(3,663,480)
Compensated absences restatement	<u>(812,251)</u>
Net position—December 31, 2014, as restated	<u>\$ 1,699,754</u>

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements for the year ended December 31, 2015 were the liabilities for compensated absences, other post-employment benefits ("OPEB") obligation and the net pension liability.

Management's estimate of the compensated absences is based on available information regarding eligibility, leave balances accrued and current compensation rates. Management's estimate of the liability for the OPEB obligation and net pension liability is based on information obtained from third party specialists and an actuarial evaluation performed by a consultant. We evaluated the key factors and assumptions used to develop the estimates for these liabilities and determined that they are reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The proposed adjusting journal entries for the year ended December 31, 2015, including those material misstatements that we identified as a result of our audit procedures, were brought to the attention of, and corrected by, management are attached to the management representation letter dated August 16, 2016 as Exhibit I (copy attached).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Town's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated August 16, 2016.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Town, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Town's auditors.

Existence of Material Misstatements that Affects the Financial Statements of a Prior Period which there was a Predecessor Auditor

We have identified the existence of material misstatements that affect the prior period financial statements on which the predecessor auditor had previously reported without modification.

Based on a valuation of the Town's capital assets performed during the year ended December 31, 2015, the Town has restated net position of governmental activities as of December 31, 2014. Additionally, as of December 31, 2014, the Town restated its net position to include long-term liabilities for compensated absences within its governmental activities. Previously, this liability was excluded. Accordingly, net position has been decreased and long-term liabilities have been increased as of December 31, 2014 to include these amounts.

Modification of the Auditor's Report

We have made the following modifications to our auditor's report.

The report contains a disclaimer of opinion on the results of operations. We were not engaged as auditors of the Town until after December 31, 2014, and we were unable to satisfy ourselves by performing auditing procedures concerning the opening balances for the year ended December 31, 2015. Since opening balances enter into the determination of change in net position and fund balance, we were unable to determine whether any adjustments might have been necessary in respect to the net change for the year reported in the statement of activities and statement of revenues, expenditures and changes in fund balances—governmental funds.

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

Drescher & Malecki LLP

August 16, 2016



TOWN OF LEWISTON
1375 Ridge Road
Lewiston, New York 14092
(716) 754-8213
www.townoflewiston.us

August 16, 2016

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227

This representation letter is provided in connection with your audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lewiston, New York (the "Town"), as of December 31, 2015 and for the year ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations of the various opinion units of the Town in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of August 16, 2016:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 22, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.

- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There are no identified material uncorrected misstatements.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus as amended*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense/expenditure is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.

- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Town has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Town is contingently liable.

- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (“GASB-62”), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Other Specific Representations

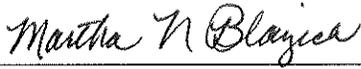
- The Town is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables, and accounts receivable, as well as estimates used to determine such amounts. Management does not believe that an allowance is necessary for any receivables at December 31, 2015.
- We agree with the work of specialists in evaluating the liabilities for other post-employment benefits obligation and the net pension liability and have adequately considered the qualifications of the specialists in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialist.
- We have received and approve the various adjusting journal entries that were proposed by you for recording in our books and recorded and reflected in the financial statements. The proposed adjusting journal entries are described in Exhibit I.
- We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.
- With respect to the required supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP.
 - We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - The methods of measurement or presentation have not changed from those used in the prior period.
- We have no intention of withdrawing from multi-employer pension plans, or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our multi-employer pension plans to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We are unable to determine the possibility of a withdrawal liability in a multi-employer benefit plan.
- No department or agency of the Town has reported a material instance of noncompliance to us.
- The Town considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. The Town reported no significant encumbrances at December 31, 2015.

- The Town records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at December 31, 2015, for governmental activities is \$1,015,658. Since the payment of sick time is dependent upon many factors, the timing of future payments is not readily determinable. Management estimates that \$106,379 of the liability is due within one year. Management believes that sufficient resources will be made available to meet such payments as they come due.
- During the year ended December 31, 2015, the Town implemented GASB Statements No. 68 and No. 71. These statements required the reconsideration of reporting the Town's share of the net pension liability related to its pension plans. Accordingly, the Town has restated December 31, 2014 governmental activities net position by \$534.
- Based on the Town's valuation of its capital assets during the year ended December 31, 2015, the Town has elected to restate capital asset balances as of December 31, 2014 by \$3,663,480. Additionally, as of December 31, 2014, the Town excluded \$812,251 in long-term liabilities for compensated absences within its governmental activities.
- The Town is exposed to various risks of loss related to damage and destruction of assets, vehicle liability, injuries to employees, health insurance and unemployment insurance. These risks are covered by commercial insurance purchased from independent third parties. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded commercial insurance coverage in the past three fiscal years.
- Management has evaluated subsequent events through August 16, 2016, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles.
- The Town's Sanitation District Fund reported a fund balance deficit of \$2,780 at December 31, 2015. The Town anticipates that this deficit will be remedied through future taxation.
- In addition to the audit services, Drescher & Malecki LLP has assisted the Town in compiling the Town's financial statements for the year ended December 31, 2015. In conjunction with the compilation of the financial statements, the Town has performed the following functions:
 - Made all management decisions and performed all management functions.
 - Designated Martha Blazick, Director of Finance, whom we believe has suitable skill, knowledge and/or experience who has overseen the services.
 - Evaluated the adequacy and results of the services performed.
 - Accepted responsibility for the results of these services.

- Town management understands the Drescher & Malecki LLP has not performed any management functions or made management decisions on behalf of the Town. Any nonattest services were performed in accordance with the applicable professional standards issued by the American Institute of Certified Public Accountants.



Steve Broderick, Supervisor



Martha Blazick, Director of Finance

Town of Lewiston, New York
Proposed Audit Journal Entries
For the Year Ended December 31, 2015

Exhibit I

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To reclassify expenditures.			
A00-1110-0400-0000	JUSTICE CONTRACTUAL	\$ 45,269	
A00-7310-0200-0000	RECREATION EQUIPMENT	9,900	
DB0-5130-0200-0000	MACHINERY EQUIPMENT	56,272	
A00-0000-0523-0000	PRIOR YEAR EXPENSE		\$ 32,534
A00-1000-3089-0000	STATE AID, OTHER		22,635
DB0-0000-0523-0000	PRIOR YEAR EXPENSE		56,272
Total		<u>111,441</u>	<u>111,441</u>
Adjusting Journal Entries JE # 2			
To record bond anticipation notes activity.			
DB0-9950-0900-0000	TRANSFERS TO OTHER FUNDS	150,000	
H91-0000-0626-0000	BAN PAYABLE	150,000	
DB0-9710-0600-0000	SERIAL BOND - PRINCIPA		150,000
H91-1000-5031-0000	TRANSFER IN		150,000
Total		<u>300,000</u>	<u>300,000</u>
Adjusting Journal Entries JE # 3			
To record Long-Term Debt ("W") Fund activity and reclassify reimbursement from Wilmington Trust as revenue.			
SS1-9710-0600-0000	SERIAL BONDS PRINCIPAL	1,951	
W00-0000-0619-0000	DEBT SERV-NYS LOANS PA	65,000	
W00-0000-0628-0000	BONDS PAYABLE	305,000	
SS1-1000-2770-0000	UNCLASSIFIED REVENUE		1,951
W00-0000-0125-0000	AMT FOR L/T DEBT		155,780
W00-0000-0620-0000	BOND PREMIUM		214,220
Total		<u>371,951</u>	<u>371,951</u>
Adjusting Journal Entries JE # 4			
To record current year LOSAP activity.			
T00-0000-0461-0000	VOLUNTEER FIRE SERV AW	89,504	
T00-0000-0061-0000	VOLUNTEER FIRE SER AWA		89,504
Total		<u>89,504</u>	<u>89,504</u>
Adjusting Journal Entries JE # 5			
To record current year compensated absences activity.			
W00-0000-0687-0000	DEBT SERV-COMPENSATED	251,824	
W00-0000-0125-0000	AMT FOR L/T DEBT		251,824
Total		<u>251,824</u>	<u>251,824</u>

Exhibit I

Adjusting Journal Entries JE # 6

To record refunding bond issuance.

SW1-9710-1420-0000	BOND ISSUANCE COSTS	119,439	
SW1-9710-9991-4000	PAYMENT TO ESCROW	6,180,902	
SW1-9710-2710-0000	PREMIUM ON BONDS		220,341
SW1-9710-5710-0000	BOND PROCEEDS		6,080,000
Total		6,300,341	6,300,341

Adjusting Journal Entries JE # 7

To recognize revenue from the Village of Lewiston for WPPC upgrades received in March 2016.

SS1-0000-0440-0000	DUE FROM OTHER GOVT	56,834	
SS1-1000-2380-0100	WPPC UPGRADE - VILLAGE		56,834
Total		56,834	56,834

Adjusting Journal Entries JE # 8

Reporting Entry Only: To record installment purchase contract.

H-8340-0200-000	IPC PURCHASE	71,700	
H-1000-5785-000	IPC PROCEEDS		71,700
Total		71,700	71,700

Adjusting Journal Entries JE # 9

To reclassify installment purchase contract activity.

SS3-8120-0400-0000	SOUTH SWR SANIT CONTRA	20,000	
SS3-9710-0700-1000	Capital Lease Principal	20,000	
SS3-1000-2770-0000	NIAGARA COUNTY SEWER BOARD		20,000
SS3-8120-0400-0000	SOUTH SWR SANIT CONTRA		20,000
Total		\$ 40,000	\$ 40,000