

**VILLAGE OF PORT CHESTER,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information and Supplementary Information
for the Year Ended May 31, 2014
and Independent Auditors' Reports*

VILLAGE OF PORT CHESTER, NEW YORK
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FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Village Trustees
Village of Port Chester, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Port Chester, New York (the "Village"), as of and for the year ended May 31, 2014, 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.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of May 31, 2014, and the respective changes in financial position thereof 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2014 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Drescher & Malochi LLP

October 7, 2014

(August 25, 2014 as to the Village of Port Chester Industrial Development Agency)

VILLAGE OF PORT CHESTER, NEW YORK
Management's Discussion and Analysis
Year Ended May 31, 2014

As management of the Village of Port Chester, 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, 2014. This document should be read in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative.

Financial Highlights

- The liabilities of the Village's governmental activities exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$2,056,220 (deficit *net position*). This consists of \$14,768,841 net investment in capital assets and \$1,817,506 restricted for specific purposes, offset by an unrestricted net deficit of \$18,642,567.
- The Village's governmental activities net position decreased by \$2,634,848 during the year ended May 31, 2014.
- At the close of the current fiscal year, the Village's governmental funds reported a combined ending fund balance of \$7,662,515, a decrease of \$1,334,410 in comparison with the prior year's fund balance of \$8,996,925.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$4,350,014, or approximately 11.7 percent of total General Fund expenditures. This total amount is *available for spending* at the Village's discretion and constitutes approximately 60.2 percent of the General Fund's total fund balance of \$7,228,169 at May 31, 2014.
- The Village's total bonded indebtedness decreased by \$2,250,000 from the combination of the issuance of \$5,300,000 refunding bonds, which refunded \$5,120,000 of previously outstanding bonds, and scheduled principal payments of \$2,430,000.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to 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 matter similar to a private-sector business.

The *statement of net position* presents information on all of the Village's assets, deferred outflows of resources, and liabilities, 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, health, transportation, economic assistance and opportunity, home and community services, and interest on long-term debt. The Village does not engage in any 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 can be divided into two categories: governmental funds and fiduciary 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 balances for the General Fund and Capital Projects Fund, which are considered to be major funds. Data from the other three funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Supplementary Information section of this report.

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

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The Village maintains one fiduciary fund, the Agency Fund.

The fiduciary fund statement can be found on page 18 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 19-40 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 progress in funding its obligation to provide post-employment benefits to its employees and the Village’s budgetary comparison for the General Fund. Required Supplementary Information and a related note to the required supplementary information can be found on pages 41-43 of this report.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented as other supplementary information immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 44-45.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the Village, liabilities of the primary government exceeded assets and deferred outflows of resources by \$2,056,220 at the close of the most recent fiscal year, as compared to assets and deferred outflows of resources exceeding liabilities by \$578,628 at the close of the fiscal year ended May 31, 2013.

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

Table 1—Condensed Statements of Net Position—Primary Government

	May 31,	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 14,702,758	\$ 12,890,669
Capital assets	<u>42,653,661</u>	<u>42,921,478</u>
Total assets	<u>57,356,419</u>	<u>55,812,147</u>
Deferred outflows of resources	<u>223,282</u>	<u>-</u>
Current liabilities	7,232,522	4,172,186
Noncurrent liabilities	<u>52,403,399</u>	<u>51,061,333</u>
Total liabilities	<u>59,635,921</u>	<u>55,233,519</u>
Net position:		
Net investment in capital assets	14,768,841	14,104,099
Restricted	1,817,506	2,491,130
Unrestricted	<u>(18,642,567)</u>	<u>(16,016,601)</u>
Total net position	<u>\$ (2,056,220)</u>	<u>\$ 578,628</u>

The largest positive portion of the Village’s net position reflects its investment in capital assets (e.g. land, buildings, improvements and equipment), less any related outstanding debt used to acquire those assets. The Village uses these capital assets to provide a variety of 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 to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position, \$1,817,506, 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. Unrestricted net position was in a deficit position of \$18,642,567. This demonstrates that future funding will be necessary to liquidate long-term obligations.

Table 2, as presented below, shows the changes in net position for the years ended May 31, 2014 and May 31, 2013.

Table 2—Condensed Statements of Changes in Net Position—Primary Government

	Year Ended May 31,	
	2014	2013
Program revenues:		
Charges for services	\$ 8,413,749	\$ 6,276,923
Operating grants and contributions	184,534	824,348
Capital grants and contributions	400,591	4,246,513
General revenues	<u>28,995,906</u>	<u>28,775,241</u>
Total revenues	<u>37,994,780</u>	<u>40,123,025</u>
Program expenses	<u>40,629,628</u>	<u>42,556,542</u>
Change in net position	(2,634,848)	(2,433,517)
Net position—beginning	<u>578,628</u>	<u>3,012,145</u>
Net position—ending	<u>\$ (2,056,220)</u>	<u>\$ 578,628</u>

Overall revenues of the primary government decreased by 5.3 percent from the prior year, due primarily to a decrease in capital grants and contributions offset by an increase in charges and services related to sewer billings created from the newly established Sewer Fund. Total expenses decreased by 4.5 percent from the year ended May 31, 2013, which can largely be attributed to a decrease in general government support related to a condemnation award made during the prior year.

A summary of sources of revenues of the primary government for the years ended May 31, 2014 and May 31, 2013 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Primary Government

	Year Ended May 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent (%)
Charges for services	\$ 8,413,749	\$ 6,276,923	\$ 2,136,826	34.0
Operating grants and contributions	184,534	824,348	(639,814)	(77.6)
Capital grants and contributions	400,591	4,246,513	(3,845,922)	(90.6)
Taxes	27,864,787	27,558,060	306,727	1.1
Use of money and property	13,774	16,182	(2,408)	(14.9)
Miscellaneous	434,366	572,261	(137,895)	(24.1)
State sources—unrestricted	<u>682,979</u>	<u>628,738</u>	<u>54,241</u>	<u>8.6</u>
Total revenues	<u>\$ 37,994,780</u>	<u>\$ 40,123,025</u>	<u>\$ (2,128,245)</u>	<u>(5.3)</u>

The most significant sources of revenues for the primary government for the year ended May 31, 2014 were taxes of \$27,864,787, or 73.3 percent of total revenues, and charges for services of \$8,413,749, or 22.1 percent of total revenues. Similarly, for the year ended May 31, 2013, the largest sources of revenues were taxes of \$27,558,060, or 68.7 percent of total revenues, and charges for services of \$6,276,923, or 15.6 percent of total revenues.

A summary of program expenses of the primary government for the years ended May 31, 2014 and May 31, 2013 is presented below in Table 4.

Table 4—Summary of Program Expenses—Primary Government

	Year Ended May 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent (%)
General government support	\$ 10,510,822	\$ 13,224,435	\$ (2,713,613)	(20.5)
Public safety	17,782,743	17,237,039	545,704	3.2
Health	397,529	393,730	3,799	1.0
Transportation	3,185,218	3,205,776	(20,558)	(0.6)
Economic assistance and opportunity	625,574	617,523	8,051	1.3
Culture and recreation	3,284,295	3,208,618	75,677	2.4
Home and community services	3,739,214	3,561,572	177,642	5.0
Interest and other fiscal charges	1,104,233	1,107,849	(3,616)	(0.3)
Total program expenses	<u>\$ 40,629,628</u>	<u>\$ 42,556,542</u>	<u>\$ (1,926,914)</u>	(4.5)

The most significant expense items for the primary government for the year ended May 31, 2014 were public safety of \$17,782,743, or 43.8 percent of total expenses, and general government support of \$10,510,822, or 25.9 percent of total expenditures. Similarly, for the year ended May 31, 2013, the most significant expense items were public safety of \$17,237,039, or 40.5 percent of total expenses, and general government support which comprised \$13,224,435, or 31.1 percent of total expenses.

Financial Analysis of 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 they represent the portion of fund balance which has not yet 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 Board of Trustees.

At May 31, 2014, the Village’s governmental funds reported combined ending fund balances of \$7,662,515, a decrease of \$1,334,410 from the prior year. Approximately 52.6 percent of this amount (\$4,029,619) constitutes *unassigned fund balance*, which is available for spending at the Village’s discretion. The remainder of fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is: (1) not in spendable form (\$394,739), (2) restricted for particular purposes (\$2,224,084), (3) committed to particular purposes (\$558,651), or (4) assigned for particular purposes (\$455,422).

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 \$4,350,014, while the total fund balance decreased to \$7,228,169. 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 11.7 percent of total General Fund expenditures, while total fund balance represents approximately 19.4 percent of that same amount.

The total fund balance of the Village's General Fund decreased by \$621,813 during the current fiscal year. During the annual budget process, the Village anticipated utilizing \$965,818 of fund balance (this included funds appropriated from fund balance, \$800,000; and the re-appropriation of prior year's encumbrances, \$165,818). As a result of actual expenditures ending (falling) under budget, the Village's fund balance ended \$344,005 higher than anticipated.

Due to capital outlay supported primarily by short-term debt during the year ended May 31, 2014, the Village's Capital Projects Fund reported a fund deficit of \$320,395 compared to the prior year's fund balance of \$536,886. This deficit is anticipated to be remedied once the short-term debt is financed with long-term debt.

During the year ended May 31, 2014, the Village created the Sewer Fund. The Village presents the activity related to the costs and billing of sewer operations as a separate governmental fund. At May 31, 2014, the Village's Sewer Fund reports a fund balance of \$316,624, for which \$230,984 is classified as committed fund balance for encumbrances and \$85,640 is assigned for the specific use of the fund's sewer operations.

At May 31, 2014, the Village's Debt Service Fund reports a fund balance of \$406,578, a decrease of \$172,249 from the prior year. This total fund balance amount is classified as restricted fund balance for the future payment of debt principal and interest.

At May 31, 2014, the Village's Special Purpose Fund reports a fund balance of \$31,539, an increase of \$309 from the prior year. This total fund balance amount is classified as restricted fund balance for certain programs with constraints placed on their use by external parties.

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. 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, 2014 is presented below in Table 5.

Table 5—General Fund Budget

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 35,812,096	\$ 36,943,069	\$ 37,037,833	\$ 94,764
Expenditures and other financing uses	36,777,914	37,908,887	37,659,646	249,241
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (965,818)	\$ (965,818)	\$ (621,813)	\$ 344,005

Original budget compared to final budget—During the year, the Village amended the budget for an \$1,130,973 increase in estimated revenues and appropriations between the original and final adjusted budget for certain building repairs, retirement payouts, and workers’ compensation payments. This amendment was supported by various revenues received in excess of expectations.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the formal budget yields no significant variances, with the exception of favorable variances of \$152,628 within home and community services expenditures and \$121,442 within transfers in. These variances are the result of less than anticipated home and community services expenditures and higher than anticipated transfers in for the payment of bond anticipation notes paid on behalf of the Sewer Fund.

Capital Asset and Debt Administration

Capital assets—The Village’s investment in capital assets for its governmental activities as of May 31, 2014, amounted to \$42,653,661 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, infrastructure, machinery and equipment, and intangible assets.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the Village’s capital asset policy. Similarly, intangible assets are amortized on the basis within the Village’s policy.

Capital assets, net of depreciation for the governmental activities at the years ended May 31, 2014 and May 31, 2013 are presented below in Table 6.

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

	May 31,	
	2014	2013
Land	\$ 904,938	\$ 904,938
Construction in progress	3,334,419	2,189,373
Land improvements	3,714,212	3,942,156
Buildings and improvements	15,040,325	15,511,391
Infrastructure	16,107,417	16,780,290
Machinery and equipment	3,216,340	3,291,272
Intangible assets	336,010	302,058
Total	\$ 42,653,661	\$ 42,921,478

Additional information on the Village’s capital assets can be found in Note 4 to the financial statements.

Long-term debt—At May 31, 2014, the Village had bonded debt outstanding of \$29,745,000, as compared to \$31,995,000 in the prior year. During the year ended May 31, 2014, the Village issued \$5,300,000 of refunding bonds which refunded \$5,120,000 of previously outstanding serial bonds, and also made scheduled principal payments of \$2,430,000.

A summary of the Village’s long-term liabilities at May 31, 2014 and May 31, 2013 is presented below in Table 7.

Table 7—Summary of Long-Term Liabilities

	May 31,	
	2014	2013
Serial bonds	\$ 29,745,000	\$ 31,995,000
Premium on serial bonds	157,994	-
Compensated absences	4,408,207	4,309,285
OPEB obligation	16,780,000	13,350,000
Judgments and claims	1,312,198	1,407,048
Total	<u>\$ 52,403,399</u>	<u>\$ 51,061,333</u>

Additional information on the Village’s long-term debt can be found in Note 10 to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

The unemployment rate, not seasonally adjusted, for the Village of Port Chester, New York at May 31, 2014 was 4.0 percent. This compares favorably to both New York State’s average unemployment rate of 6.4 percent and the national unemployment rate of 6.2 percent. These factors are considered in preparing the Village’s budget.

During the current fiscal year, the Village appropriated \$369,782 of the General Fund’s unassigned fund balance in addition to the use of \$50,000 of restricted fund balance for spending in the Village’s 2014-2015 fiscal year budget. The 2014-2015 adopted budget appropriations total of \$37,684,166 is an approximate increase of 2.9 percent as compared to \$36,612,096 in 2013-2014. The Village’s total tax levy in 2014-2015 is \$22,550,987, which is an approximate increase of 3.0 percent as compared to \$21,896,497 levied during the 2013-2014 year.

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. If you have any questions about this report or need additional financial information, contact the Treasurer’s Office, Village of Port Chester, 222 Grace Church Street, Port Chester, New York 10573.

BASIC FINANCIAL STATEMENTS

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VILLAGE OF PORT CHESTER, NEW YORK
Statement of Net Position
May 31, 2014

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Agency
ASSETS		
Cash and cash equivalents	\$ 3,835,045	\$ 309,360
Restricted cash and cash equivalents	6,362,048	-
Receivables	2,137,622	3,000
Intergovernmental receivables	1,955,754	-
Due from Agency Fund	17,550	-
Prepaid items	394,739	6,000
Capital assets not being depreciated	4,239,357	-
Capital assets, net of accumulated depreciation/amortization	38,414,304	-
Total assets	57,356,419	318,360
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	223,282	-
Total deferred outflows of resources	223,282	-
LIABILITIES		
Accounts payable	897,382	5,430
Accrued liabilities	909,806	-
Due to retirement systems	523,159	-
Bond anticipation notes payable	4,215,000	-
Retainages payable	108,186	-
Unearned revenue	578,989	-
Noncurrent liabilities:		
Due within one year	3,059,896	-
Due within more than one year	49,343,503	-
Total liabilities	59,635,921	5,430
NET POSITION		
Net investment in capital assets	14,768,841	-
Restricted for:		
Workers' compensation	1,671,344	-
Liability claims	114,623	-
Special Purpose Fund	31,539	-
Unrestricted	(18,642,567)	312,930
Total net position	\$ (2,056,220)	\$ 312,930

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

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Activities
Year Ended May 31, 2014

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	<u>Component Unit</u>
					<u>Governmental Activities</u>	<u>Industrial Development Agency</u>
Primary government:						
Governmental activities:						
General government support	\$ 10,510,822	\$ 1,798,851	\$ -	\$ 35,858	\$ (8,676,113)	\$ -
Public safety	17,782,743	4,311,310	43,998	-	(13,427,435)	-
Health	397,529	18,979	-	-	(378,550)	-
Transportation	3,185,218	94,970	-	215,021	(2,875,227)	-
Economic assistance and opportunity	625,574	-	-	-	(625,574)	-
Culture and recreation	3,284,295	424,405	-	-	(2,859,890)	-
Home and community services	3,739,214	1,765,234	140,536	149,712	(1,683,732)	-
Interest and other fiscal charges	1,104,233	-	-	-	(1,104,233)	-
Total primary government	<u>\$ 40,629,628</u>	<u>\$ 8,413,749</u>	<u>\$ 184,534</u>	<u>\$ 400,591</u>	(31,630,754)	-
Component unit:						
Industrial Development Agency	<u>\$ 29,463</u>	<u>\$ -</u>	<u>\$ 57,063</u>	<u>\$ -</u>		27,600
General revenues:						
					27,864,787	-
					13,774	474
					434,366	-
					682,979	-
					<u>28,995,906</u>	<u>474</u>
					(2,634,848)	28,074
					578,628	284,856
					<u>\$ (2,056,220)</u>	<u>\$ 312,930</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Balance Sheet—Governmental Funds
May 31, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 3,827,649	\$ -	\$ 7,396	\$ 3,835,045
Restricted cash and cash equivalents	1,785,967	4,138,282	437,799	6,362,048
Receivables	805,766	3,277	1,328,579	2,137,622
Intergovernmental receivables	1,734,983	220,771	-	1,955,754
Due from other funds	938,992	-	318	939,310
Prepaid items	394,739	-	-	394,739
Total assets	<u>\$ 9,488,096</u>	<u>\$ 4,362,330</u>	<u>\$ 1,774,092</u>	<u>\$ 15,624,518</u>
LIABILITIES				
Accounts payable	\$ 769,418	\$ 127,664	\$ 300	\$ 897,382
Accrued liabilities	619,918	-	97,609	717,527
Due to other funds	-	318	921,442	921,760
Due to retirement systems	523,159	-	-	523,159
Bond anticipation notes payable	-	4,215,000	-	4,215,000
Retainages payable	-	108,186	-	108,186
Unearned revenue	347,432	231,557	-	578,989
Total liabilities	<u>2,259,927</u>	<u>4,682,725</u>	<u>1,019,351</u>	<u>7,962,003</u>
FUND BALANCES (DEFICIT)				
Nonspendable	394,739	-	-	394,739
Restricted	1,785,967	-	438,117	2,224,084
Committed	327,667	-	230,984	558,651
Assigned	369,782	-	85,640	455,422
Unassigned	4,350,014	(320,395)	-	4,029,619
Total fund balances (deficit)	<u>7,228,169</u>	<u>(320,395)</u>	<u>754,741</u>	<u>7,662,515</u>
Total liabilities and fund balances (deficit)	<u>\$ 9,488,096</u>	<u>\$ 4,362,330</u>	<u>\$ 1,774,092</u>	<u>\$ 15,624,518</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
May 31, 2014

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

Total fund balances (deficit)—governmental funds (page 14)		\$ 7,662,515
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$68,005,947 and the accumulated depreciation is \$25,352,286.		42,653,661
Deferred charge on refunding is a deferred outflow of resources and is recognized as a component of interest expense in the entity-wide statements over the life of the related debt. The remaining deferred charge on refunding is \$223,282.		223,282
Net accrued interest expense for serial bonds is not reported in the funds.		(192,279)
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:		
Bonds payable	\$ (29,745,000)	
Unamortized bond premiums	(157,994)	
Compensated absences	(4,408,207)	
Other post-employment benefits obligation	(16,780,000)	
Judgments and claims	<u>(1,312,198)</u>	<u>(52,403,399)</u>
Net position of governmental activities		<u>\$ (2,056,220)</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit)—Governmental Funds
Year Ended May 31, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 21,907,073	\$ -	\$ -	\$ 21,907,073
Real property tax items	875,940	-	-	875,940
Non-property tax items	5,081,774	-	-	5,081,774
Departmental income	3,980,713	-	1,335,975	5,316,688
Use of money and property	381,765	-	5,128	386,893
Licenses and permits	338,712	-	-	338,712
Fines and forfeitures	2,384,120	-	-	2,384,120
Miscellaneous	98,781	302,584	69,969	471,334
State aid	756,328	363,443	-	1,119,771
Federal aid	111,185	1,290	-	112,475
Total revenues	<u>35,916,391</u>	<u>667,317</u>	<u>1,411,072</u>	<u>37,994,780</u>
EXPENDITURES				
Current:				
General government support	5,614,601	-	35,549	5,650,150
Public safety	11,393,629	-	-	11,393,629
Health	261,723	-	-	261,723
Transportation	1,738,358	-	-	1,738,358
Economic assistance and opportunity	398,744	-	-	398,744
Culture and recreation	1,987,204	-	-	1,987,204
Home and community services	2,258,869	-	97,909	2,356,778
Employee benefits	10,051,724	-	-	10,051,724
Debt service:				
Principal	2,430,000	-	-	2,430,000
Interest and other fiscal charges	1,064,196	-	126,200	1,190,396
Capital outlay	-	1,985,196	-	1,985,196
Total expenditures	<u>37,199,048</u>	<u>1,985,196</u>	<u>259,658</u>	<u>39,443,902</u>
Excess (deficiency) of revenues over expenditures	<u>(1,282,657)</u>	<u>(1,317,879)</u>	<u>1,151,414</u>	<u>(1,449,122)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,121,442	460,598	-	1,582,040
Transfers out	(460,598)	-	(1,121,442)	(1,582,040)
Advanced refunding bonds	-	-	5,300,000	5,300,000
Payment to escrow agent	-	-	(5,343,282)	(5,343,282)
Premium on refunding bonds	-	-	157,994	157,994
Total other financing sources (uses)	<u>660,844</u>	<u>460,598</u>	<u>(1,006,730)</u>	<u>114,712</u>
Net change in fund balances (deficit)	(621,813)	(857,281)	144,684	(1,334,410)
Fund balances—beginning	<u>7,849,982</u>	<u>536,886</u>	<u>610,057</u>	<u>8,996,925</u>
Fund balances (deficit)—ending	<u>\$ 7,228,169</u>	<u>\$ (320,395)</u>	<u>\$ 754,741</u>	<u>\$ 7,662,515</u>

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

VILLAGE OF PORT CHESTER, 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, 2014

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

Net change in fund balances (deficit)—total governmental funds (page 16) \$ (1,334,410)

Governmental funds report capital outlays 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 depreciation expense exceeded capital outlays in the current period.

Capital asset additions, net of transfers	\$ 2,249,743	
Depreciation expense	<u>(2,517,560)</u>	(267,817)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 223,282

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 86,163

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. 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 and amortized in 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:

Proceeds from refunding bonds	\$ (5,300,000)	
Repayment of serial bonds	2,430,000	
Reduction of refunded bonds	5,120,000	
Premium on refunding bonds	(157,994)	
Change in compensated absences	(98,922)	
Change in other post-employment benefits obligation	(3,430,000)	
Change in judgments and claims	<u>94,850</u>	<u>(1,342,066)</u>

Change in net position of governmental activities \$ (2,634,848)

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

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Net Position—Agency Fund
May 31, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,247,497
Total assets	<u>\$ 1,247,497</u>
LIABILITIES	
Temporary withholdings liabilities	\$ 1,229,947
Due to other funds	<u>17,550</u>
Total liabilities	<u>\$ 1,247,497</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Notes to the Financial Statements
Year Ended May 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Village of Port Chester, 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 (the “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., 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 are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The Village reports no business-type activities. Likewise, the primary government is reported separately from the legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The Village was established pursuant to an act of the New York State Legislature in 1868. The Village operates under a Board of Trustees form of government in accordance with its Charter and the various other applicable laws of the State of New York. The Village Board of Trustees is the legislative body responsible for overall operation. The Village Manager is the Chief Administrative Officer and Chief Executive Officer, where the power is not entrusted with the Mayor, and the Village Treasurer serves as the Chief Financial Officer. The Village provides the following services to its residents: public safety, health, transportation, economic opportunity and development, culture and recreation, home and community services and general and administrative support.

Independently elected officials of the Village include the Mayor and Trustees (6).

Units of local government which operate within the boundaries of the Village are the County of Westchester and the Town of Rye. Public education is provided by the Port Chester-Rye Union Free School District.

The accompanying financial statements present the government and its component unit. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit—The following entity is considered to be a component unit to the Village’s reporting entity because of their operational or financial relationship with the Village:

The Village of Port Chester Industrial Development Agency (“Agency”) is a public benefit corporation created by State legislation to promote the economic welfare, recreation opportunities and prosperity of the Village’s inhabitants. Members of the Agency are appointed by Board of Trustees. Agency members have complete responsibility for management of the Agency and

accountability for fiscal matters. The Village is not liable for Agency bonds or notes. The governing board of the Agency serves at the pleasure of the Village Board and, therefore, the Village is considered able to impose its will on the Agency. Since the Agency does not provide services entirely or almost entirely to the Village of Port Chester, the financial statements of the Agency have been reflected as a discretely presented component unit.

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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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 and 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. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

- *General Fund*—This is the principal operating fund of the Village and accounts for all financial resources of the general government, except those accounted for in another fund.
- *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

The Village also reports the following nonmajor governmental funds:

- *Sewer Fund*—This fund was created by the Village during the year ended May 31, 2014, and is used to account for transactions of the Village's sewer operations.
- *Debt Service Fund*—This fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.
- *Special Purpose Fund*—This fund is used to account for special projects or programs supported created for the benefit of the Village, generally funded through gifts and donations.

Additionally, the Village reports the following fund type:

Fiduciary Funds—are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. The Fiduciary Funds of the Village include an *Agency Fund*.

- *Agency Fund*—This fund is used to account for assets held by the Village as an agent for individuals, private organizations, and/or other governmental units.

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 and advances to/from 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 the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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 related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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, except for sewer billings which are considered revenues once bills are issued. 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 and claims and judgments, are recorded only when 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, charges for services provided, and state and federal aid associated with the current fiscal period are all considered 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 or within 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 amount is received during the period of availability. All other revenue items are considered to be measureable and available only when cash is received by the Village.

The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The Village’s cash, cash equivalents, and investments 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 the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. The Village had no investments at May 31, 2014; however, when the Village does have investments they are recorded at fair value based on quoted market value.

Restricted Cash and Cash Equivalents—Restricted cash represents unspent proceeds of debt and amounts to support restricted fund balances.

Prepaid Items—Certain payments 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 when purchased.

Capital Assets—Capital assets, which include land, construction in progress, land improvements, buildings and improvements, infrastructure, machinery and equipment, and intangible assets, are reported in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than an established threshold for the type of asset and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. 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 estimated fair market value of the item at the date of its donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated and intangible assets amortized using the straight line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Land improvements	10-50
Buildings and improvements	20-50
Infrastructure	25-50
Machinery and equipment	5-10
Intangible assets	10

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 police vehicle included as part of *expenditures—public safety*). The amount 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, 2014, the Village reported deferred outflows of resources in the amount of \$223,282, which represent deferred charges on a serial bonds refunding.

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, 2014, the Village does not have any items that qualify for reporting in this category.

Net Position Flow Assumptions—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 Assumptions—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 adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 has by resolution authorized the Village Manager to assign fund balance. The Board may also assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenues 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 Expenditures/Expenses

Program Revenues—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 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—The Village real property taxes are levied annually on June 1. On November 1, all unpaid taxes are sent to Westchester County to be relieved on the County tax bill. The County assumes enforcement responsibility for all uncollected taxes. The Village will receive the full amount of such taxes within the year of levy.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At May 31, 2014, the Village reported \$347,432 and \$231,557 of unearned revenue in the General Fund and Capital Projects fund, respectively. The Village received cash in advance related to grants and prepaid fees for programs but has not performed the services and therefore recognizes a liability.

Compensated Absences—The Village labor agreements and Village rules and regulations provide for sick leave, vacations, and other miscellaneous paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

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

Other

Estimates—The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended May 31, 2014, the Village implemented GASB Statements No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of GASB Statement No. 61 is to clarify the manner in determining whether or not an organization should be included as a component unit. The objective of GASB Statement No. 66 is to improve accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statements No. 61 and 66 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. 67, *Financial Reporting*

for Pension Plans—an amendment of GASB Statement No. 25; No. 69, Government Combinations and Disposals of Government Operations, and No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the fiscal year ending May 31, 2015; and 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—and amendment of GASB Statement No. 68, effective for the fiscal year ending May 31, 2016. The Village is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 67, 68, 69, 70 and 71 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Deficit Fund Balances—At May 31, 2014, the Capital Projects Fund has a deficit fund balance of \$320,395. The primary reason for the deficit in this case is that the Village issued bond anticipation notes (“BANs”), which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). When the cash from the BANs is spent, expenditures are reported and fund balance is reduced. Since the BANs are the main source of resources for the fund, the result is an overall fund deficit. This deficit will be remedied as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in) to make the scheduled debt service principal and interest payments on the BANs or retire the BANs.

Legal Compliance—Budgets

Budgets and Budgetary Accounting—Through the budget, the Village Board of Trustees sets the direction of the Village, allocates its resources and establishes its priorities. The annual budget assures the efficient and effective uses of the Village’s economic resources, as well as establishing that the highest priority objectives are accomplished.

The annual budget serves from June 1 to May 31, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the Village’s performance.

The Village generally follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before March 20th, the budget officer submits to the Village Clerk a “tentative” operating budget for the following fiscal year to commence on June 1st. This budget includes the proposed expenditures and means of financing.
- The Board of Trustees, on or before March 31st, meets to discuss and review the tentative budget. The Board of Trustees conducts a public hearing on the tentative budget to obtain taxpayer comments on or before April 15th. After the public hearing and on or before May 1st, the Trustees meet to consider and adopt the budget.
- The Village Board has established legal control on the budget at the function level of expenditures. Transfers between appropriation accounts, at the function level, require approval by the Village Manager. Any modifications to appropriations resulting from increases in revenue estimates or supplemental reserve appropriations also require a majority vote by the Board.

- Appropriations in the General Fund lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Village's investment policies are governed by State statutes. Village monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Village 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 deposit accounts, time deposit accounts and certificates of deposit at 100% 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, 2014 are shown below.

	Governmental Funds	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 1,150	\$ -	\$ 1,150
Deposits	10,195,943	1,247,497	11,443,440
Total	<u>\$ 10,197,093</u>	<u>\$ 1,247,497</u>	<u>\$ 11,444,590</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at May 31, 2014 as shown below.

	Bank Balance	Carrying Amount
FDIC insured	\$ 1,250,000	\$ 1,250,000
Uninsured:		
Collateral held by pledging bank's agent in the Village's name	10,657,374	10,193,440
Total	<u>\$ 11,907,374</u>	<u>\$ 11,443,440</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 State statute all deposits in excess of FDIC insurance coverage must be collateralized. At May 31, 2014, 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 and Cash Equivalents—The Village reports unspent proceeds of debt and amounts to support restricted fund balances as restricted cash and cash equivalents. At May 31, 2014, the Village reported \$6,362,048 of restricted cash within its governmental funds.

Investments—The Village had no investments at May 31, 2014.

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.

Port Chester Industrial Development Agency

The Agency’s investment policies are governed by New York State statutes. There were no investments at May 31, 2014. All deposits are carried at fair value.

Cash and cash equivalents are as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 309,360</u>	<u>\$ 309,360</u>

3. RECEIVABLES

Major revenues accrued by the Village at May 31, 2014 consisted of the following:

Receivables—Represents primarily sewer billings receivable and other miscellaneous amounts due from other individuals and agencies. Receivables at May 31, 2014 are as follows:

General Fund:		
Village court	\$ 332,829	
Building department	19,548	
Electric reimbursements	94,121	
Franchise fees	54,724	
Other	<u>304,544</u>	\$ 805,766
Capital Projects Fund:		
Other		3,277
Sewer Fund:		
Sewer billings		<u>1,328,579</u>
Total governmental funds		<u>\$ 2,137,622</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State and other local governments. Intergovernmental receivables at May 31, 2014 are:

General Fund:		
Sales tax	\$ 1,074,741	
Property tax receivable	496,008	
Mortgage tax receivable	124,861	
Library	33,612	
Other	<u>5,761</u>	\$ 1,734,983
Capital Projects Fund:		
Department of Transportation	\$ 215,021	
Department of Environmental Conservation	<u>5,750</u>	<u>220,771</u>
Total governmental funds		<u>\$ 1,955,754</u>

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended May 31, 2014 was as follows:

	Balance 6/1/2013	Increases	Decreases	Balance 5/31/2014
Capital assets, not being depreciated:				
Land	\$ 904,938	\$ -	\$ -	\$ 904,938
Construction in progress	2,189,373	1,977,905	832,859	3,334,419
Total capital assets, not being depreciated	<u>3,094,311</u>	<u>1,977,905</u>	<u>832,859</u>	<u>4,239,357</u>
Capital assets, being depreciated/amortized:				
Land improvements	5,660,571	-	-	5,660,571
Buildings and improvements	20,085,125	106,404	-	20,191,529
Infrastructure	22,696,772	293,808	-	22,990,580
Machinery and equipment	13,906,951	639,286	-	14,546,237
Intangible assets	312,474	65,199	-	377,673
Total capital assets, being depreciated/amortized	<u>62,661,893</u>	<u>1,104,697</u>	<u>-</u>	<u>63,766,590</u>
Less accumulated depreciation/amortization for:				
Land improvements	1,718,415	227,944	-	1,946,359
Buildings and improvements	4,573,734	577,470	-	5,151,204
Infrastructure	5,916,482	966,681	-	6,883,163
Machinery and equipment	10,615,679	714,218	-	11,329,897
Intangible assets	10,416	31,247	-	41,663
Total accumulated depreciation/amortization	<u>22,834,726</u>	<u>2,517,560</u>	<u>-</u>	<u>25,352,286</u>
Total capital assets, being depreciated/amortized, net	<u>39,827,167</u>	<u>(1,412,863)</u>	<u>-</u>	<u>38,414,304</u>
Governmental activities capital assets, net	<u>\$ 42,921,478</u>	<u>\$ 565,042</u>	<u>\$ 832,859</u>	<u>\$ 42,653,661</u>

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

Governmental activities:	
General government support	\$ 403,608
Public safety	685,243
Transportation	868,187
Economic assistance and opportunity	43,108
Culture and recreation	278,543
Home and community services	238,871
Total	<u>\$ 2,517,560</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at May 31, 2014, were as follows:

	General Fund	Sewer Fund	Total Governmental Funds
Salary and employee benefits	\$ 619,918	\$ -	\$ 619,918
Sewer transition and maintenance fees	-	97,609	97,609
Total	<u>\$ 619,918</u>	<u>\$ 97,609</u>	<u>\$ 717,527</u>

6. PENSION PLANS

Plan Description—The Village participates in the New York State and Local Employees’ Retirement System (“ERS”), the New York State and Local Police and Fire Retirement System (“PFRS”) and the Public Employees’ Group Life Insurance Plan (the “Systems”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (the “Comptroller”) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the Systems and for custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory, except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 who generally contribute three percent (3%) of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute a percentage ranging from three percent (3%) to six percent (6%), based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement Systems fiscal year ending March 31.

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

Year Ended May 31,	ERS	PFRS
2014	\$1,268,465	\$2,095,616
2013	947,949	2,224,525
2012	695,379	1,545,170

Legislation requires participating employers to make payments on a current basis. The Village’s contributions made to the Systems were equal to 100 percent of the contributions required for each year, and the Village has not bonded or amortized any of the excess amounts.

7. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description—In addition to providing pension benefits, the Village provides health insurance coverage and/or payment for fractional values of unused sick leave to eligible retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the Village may vary according to length of service. The cost of providing post-employment benefits is shared between the Village and the retired employee. Substantially all of the Village’s employees may become eligible for these benefits if they reach normal retirement age while working for the Village. The cost of retiree health care benefits is recognized as an expenditure/payable as claims are paid.

Funding Policy—The employer’s funding policy is to contribute the current annual premium (net of employee contributions) for all retired participants (i.e., pay-as-you-go). Current New York State law prohibits municipalities from pre-funding retiree medical benefit obligations in a Trust.

The Village’s annual other post-employment benefits (“OPEB”) cost is calculated based on the annual required contributions (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The table presented below shows the components of the Village’s annual OPEB cost for the past two years, the amount contributed to the plan, and the changes in the Village’s net OPEB obligation.

	Year Ended May 31,	
	2014	2013
Annual required contribution ("ARC")	\$ 5,390,000	\$ 5,140,000
Interest on net OPEB obligation	600,000	460,000
Adjustment to ARC	<u>(780,000)</u>	<u>(600,000)</u>
Annual OPEB cost (expense)	5,210,000	5,000,000
Contributions made	<u>(1,780,000)</u>	<u>(1,830,000)</u>
Increase in net OPEB obligation	3,430,000	3,170,000
Net OPEB obligation—beginning	<u>13,350,000</u>	<u>10,180,000</u>
Net OPEB obligation—ending	<u>\$ 16,780,000</u>	<u>\$ 13,350,000</u>

Funding Status and Funding Progress—As of June 1, 2013, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits for governmental activities was \$62,360,000. The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a-b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
As of June 1, 2013	\$ -	\$ 62,360,000	\$ 62,360,000	0.00%	\$15,800,000	394.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Village’s schedule of contributions for the most recent three years is shown below:

Year Ended May 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2014	\$ 5,390,000	\$ 1,780,000	33.0%
2013	5,140,000	1,830,000	35.6%
2012	4,935,000	1,760,000	35.7%

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. The projection of benefits does not incorporate the potential effect of a change in the pattern of cost sharing between the employer and plan members in the future. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the June 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of June 1, 2013 and measurement date of May 31, 2014. The expected investment rate of return on employer’s assets is 4.5%. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Village does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer’s assets. The expected inflation rate is 3.0%. The RP-2000 Mortality Table for males and females is used for mortality rates. The rates of decrement due to disability are assumed to be zero. The assumed rates of increase in health care vary from 5.0% to 9.5% and the administrative fees are assumed to increase at 3.0% per year. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis, therefore the remaining amortization period at May 31, 2014 was twenty-four years.

8. RISK MANAGEMENT

The Village is exposed to various risks of losses related to torts; theft of, damage to, 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 insurance coverage in the past three fiscal years.

The various primary liability insurance policies of the Village are limited to \$1 million per occurrence and \$2 million in the aggregate. The Village carries an umbrella liability policy that adds coverage of \$10 million per occurrence and an aggregate limit of \$20 million over the underlying primary policies. The Village carries property insurance that is limited to 90 percent of the total replacement cost values as determined by a contracted appraisal company. The deductibles applicable to the Village include \$1,000 for auto and equipment, \$50,000 for general liability, public officials and law enforcement, and \$25,000 for property coverage.

Judgments and Claims—The government-wide financial statements reflect the liability for workers’ compensation and general liability claims. These amounts are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported (“IBNR”). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques. The variety of techniques produces current estimates that reflect recent settlements, claims frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and other factors that are considered to be appropriate modifiers of past experience. Typically these judgments and claims will be paid out of the General Fund.

An analysis of the activity of unpaid claims liabilities for the past two years is as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u> <u>Judgments</u> <u>and Claims</u>
Balance at June 1, 2013	\$ 1,217,692	\$ 189,356	\$ 1,407,048
Provision for claims and claims adjustments expenses	1,265,217	235,552	1,500,769
Claims and claims adjustment expenses paid	<u>(1,505,146)</u>	<u>(90,473)</u>	<u>(1,595,619)</u>
Balance at May 31, 2014	<u>\$ 977,763</u>	<u>\$ 334,435</u>	<u>\$ 1,312,198</u>
	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u> <u>Judgments</u> <u>and Claims</u>
Balance at June 1, 2012	\$ 1,531,993	\$ 305,926	\$ 1,837,919
Provision for claims and claims adjustments expenses	1,632,335	(78,229)	1,554,106
Claims and claims adjustment expenses paid	<u>(1,946,636)</u>	<u>(38,341)</u>	<u>(1,984,977)</u>
Balance at May 31, 2013	<u>\$ 1,217,692</u>	<u>\$ 189,356</u>	<u>\$ 1,407,048</u>

9. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The following is a summary of the Village’s short-term debt for the fiscal year ended May 31, 2014:

Description	Interest Rate	Maturity Date	Balance 6/1/2013	Issues	Redemptions	Balance 5/31/2014
Capital Projects Fund:						
Various capital projects	0.67%	2/26/2014	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -
Various capital projects	1.00%	2/26/2014	-	3,415,000	3,415,000	-
Various capital projects	1.00%	2/25/2015	-	4,215,000	-	4,215,000
Total			<u>\$ 1,200,000</u>	<u>\$ 7,630,000</u>	<u>\$ 4,615,000</u>	<u>\$ 4,215,000</u>

10. LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as 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 principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The Village’s outstanding long-term liabilities include bonds payable, compensated absences, other post-employment benefits plan, and judgments and claims. The bonds payable of the Village are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the Village’s long term debt at May 31, 2014 follows:

	Balance 6/1/2013	Additions	Reductions	Balance 5/31/2014	Due Within One Year
Serial bonds	\$ 31,995,000	\$ 5,300,000	\$ 7,550,000	\$ 29,745,000	\$ 2,585,000
Premiums on serial bonds	-	157,994	-	157,994	14,363
Serial bonds payable - net	31,995,000	5,457,994	7,550,000	29,902,994	2,599,363
Compensated absences	4,309,285	1,978,104	1,879,182	4,408,207	220,410
OPEB obligation	13,350,000	5,210,000	1,780,000	16,780,000	-
Judgments and claims	1,407,048	1,500,769	1,595,619	1,312,198	240,123
Total	<u>\$ 51,061,333</u>	<u>\$ 14,146,867</u>	<u>\$ 12,804,801</u>	<u>\$ 52,403,399</u>	<u>\$ 3,059,896</u>

Serial Bonds—The Village issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. Serial bonds have been issued for governmental activities. 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 5 to 20 years.

On April 15, 2014, the Village issued \$5,300,000 in refunding bonds, which partially refunded the previously issued Series 2004A and Series 2005B public improvement bonds, the outstanding principal of which were \$1,925,000 and \$3,195,000, respectively, at May 31, 2014. The bonds were issued at a premium of \$157,994 and included \$114,712 of issuance costs. The interest on the refunding bonds range from 2.00 percent to 3.00 percent. The Village deposited \$5,343,282 with an escrow agent and as a result, the portions of original Series 2004A and 2005B bonds, as described above, are considered refunded and the liability of these bonds, \$1,925,000 and \$3,195,000, respectively, have been removed from the financial statements. The difference between the reacquisition price and the amount refunded, \$223,282, is reported as a deferred outflow of resources and will be amortized over the life of the refunding issuance. The refunded bonds will produce a net present value debt service savings of approximately \$382,122.

A summary of additions and payments for the year ended May 31, 2014 is shown below:

Purpose	Original Issue	Interest Rate (%)	Year of Issue/ Maturity	Balance	Additions	Reductions	Balance
				7/1/2013			6/30/2014
Various	\$ 3,730,250	4.02	2003-2014	\$ 170,000	\$ -	\$ 170,000	\$ -
Various	3,250,000	5.70	2003-2014	145,000	-	145,000	-
Various	3,712,500	3.83	2004-2015	2,380,000	-	2,150,000	230,000
Various	5,100,000	3.96	2005-2016	3,915,000	-	3,425,000	490,000
Various	3,096,000	4.00	2006-2026	2,480,000	-	130,000	2,350,000
Various	6,569,000	3.75	2007-2024	5,180,000	-	335,000	4,845,000
Various	2,348,081	4.25	2008-2028	2,060,000	-	105,000	1,955,000
Brody settled claim	483,000	2.50	2009-2015	200,000	-	100,000	100,000
Various	3,756,000	3.49	2009-2026	3,360,000	-	210,000	3,150,000
Various	3,485,000	3.00	2011-2021	2,825,000	-	325,000	2,500,000
Various	6,975,000	2.00-3.00	2012-2025	6,915,000	-	415,000	6,500,000
Various	2,405,000	2.00-3.30	2012-2025	2,365,000	-	40,000	2,325,000
Various	5,300,000	2.00-3.00	2014-2026	-	5,300,000	-	5,300,000
Total				<u>\$ 31,995,000</u>	<u>\$ 5,300,000</u>	<u>\$ 7,550,000</u>	<u>\$ 29,745,000</u>

Amortization of Bond Premiums—As noted above, on April 15, 2014 the Village issued refunding serial bonds totaling \$5,300,000 and received a bond premium of \$157,994. The premium is being amortized on a straight-line annual basis over the life of the bond, which matures on August 15, 2025.

Compensated Absences—As described in Note 1, the Village records the value of compensated become payable. The annual budgets of the operating funds provide funding for these benefits as they become payable. The liability for compensated absences at May 31, 2014 amounts to \$4,408,207, of which \$220,410 has been included within the current portion of long-term debt. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

OPEB Obligation—As explained in Note 7, the Village provides health insurance coverage for certain retirees. The Village’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is estimated to be \$16,780,000 as of May 31, 2014.

Judgments and Claims—As explained in Note 8, the Village records the liabilities for workers’ compensation and general liability claims in the government-wide financial statements.

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

	Serial Bonds	Premiums	Compensated Absences	OPEB Obligation	Judgments and Claims	Total
2015	\$ 2,585,000	\$ 14,363	\$ 220,410	\$ -	\$ 240,123	\$ 3,059,896
2016	2,550,000	14,363	-	-	-	2,564,363
2017	2,620,000	14,363	-	-	-	2,634,363
2018	2,705,000	14,363	-	-	-	2,719,363
2019	2,775,000	14,363	-	-	-	2,789,363
2020-2024	12,800,000	71,816	-	-	-	12,871,816
2025 - thereafter	3,710,000	14,363	4,187,797	16,780,000	1,072,075	25,764,235
	<u>\$ 29,745,000</u>	<u>\$ 157,994</u>	<u>\$ 4,408,207</u>	<u>\$ 16,780,000</u>	<u>\$ 1,312,198</u>	<u>\$ 52,403,399</u>

Interest requirements on serial bonds payable are as follows:

Year	Interest
2015	\$ 847,407
2016	797,879
2017	725,530
2018	647,902
2019	571,593
2020-2024	1,642,698
2025 and thereafter	188,230
	<u>\$ 5,421,239</u>

11. 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, construct or improvement of these assets reduce the balance in this category. The following is a reconciliation of the Village’s governmental activities net investment in capital assets:

Capital assets, net of accumulated depreciation	\$ 42,653,661
Less: related debt	
Bonds payable	(28,279,650)
Bond anticipation notes	(4,215,000)
Unspent debt proceeds	4,544,542
Unamortized bond premium	(157,994)
Deferred charge on refunding	223,282
Net investment in capital assets	<u>\$ 14,768,841</u>

- **Restricted Net Position**—This category represents 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.
- **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, 2014 includes:

- **Prepaid Items**—Represents amounts prepaid to the retirement system and the Village’s workers’ compensation administrator that are applicable to future accounting periods. The General Fund reports \$394,739 of nonspendable fund balance at May 31, 2014.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grants, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance maintained by the Village at May 31, 2014 includes:

	General Fund	Debt Service Fund	Special Purpose Fund	Total
Workers' compensation	\$ 1,671,344	\$ -	\$ -	\$ 1,671,344
Liability claims	114,623	-	-	114,623
Special Purpose Fund	-	-	31,539	31,539
Debt service	-	406,578	-	406,578
Total	<u>\$ 1,785,967</u>	<u>\$ 406,578</u>	<u>\$ 31,539</u>	<u>\$ 2,224,084</u>

- **Restricted for Workers’ Compensation**—Represents funds accumulated for workers’ compensation claims, which are not anticipated to be funded through the Village’s operating budget.
- **Restricted for Liability Claims**—Represents resources accumulated to pay for claims, actions or judgments against the Village that result from personal injuries or property damage.
- **Restricted for Special Purpose Fund**—Represents amounts that report the difference between assets and liabilities of the certain programs with constraints placed on their use by either external parties and/or statute.
- **Restricted for Debt Service**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.

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, 2014, the Village reported the following commitments:

- **Committed for Debt Service** —Represents amounts, \$201,185, within the General Fund set aside for future payments on the Village’s indebtedness.
- **Committed for Encumbrances**—Represents amounts, \$126,482 and \$230,984, in the General Fund and Sewer Fund, respectively, related to unperformed (executory) contracts for goods and services.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the Village at May 31, 2014 and include:

	General Fund	Sewer Fund	Total
Subsequent year's expenditures	\$ 369,782	\$ -	\$ 369,782
Specific use:			
Sewer Fund	-	85,640	85,640
Total	<u>\$ 369,782</u>	<u>\$ 85,640</u>	<u>\$ 455,422</u>

- **Assigned to Subsequent Year’s Expenditures**—Representing available fund balance being appropriated to meet expenditure requirements in the 2014-2015 fiscal year, \$369,782 at May 31, 2014.
- **Assigned to Specific Use**—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment’s purpose relates to each fund’s operations and represents amounts within funds that are not restricted or committed.

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

12. 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 composition of interfund balances as of May 31, 2014 is as follows:

Fund	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 938,992	\$ -
Capital Projects Fund	-	318
Sewer Fund	-	921,442
Debt Service Fund	318	-
Total governmental funds	<u>939,310</u>	<u>921,760</u>
Fiduciary funds:		
Agency Fund	-	17,550
Total	<u>\$ 939,310</u>	<u>\$ 939,310</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The Village made the following transfers during the year ended May 31, 2014:

Fund	Transfers in:		
	General	Capital Projects	Total
Transfers out:			
General Fund	\$ -	\$ 460,598	\$ 460,598
Sewer Fund	921,442	-	921,442
Debt Service Fund	200,000	-	200,000
Total	<u>\$ 1,121,442</u>	<u>\$ 460,598</u>	<u>\$ 1,582,040</u>

Transfers are used primarily to move various fund revenues that the Village must account for in other funds in accordance with budgetary authorizations. Additionally, transfers from certain funds are used to finance various capital projects within the Capital Projects Fund.

13. AGENCY FUND

An agency fund exists for temporary deposit funds. The following is a summary of changes in assets and liabilities for the fiscal year ended May 31, 2014:

	Balance 6/1/2013	Increases	Decreases	Balance 5/31/2014
ASSETS				
Cash and cash equivalents	\$ 1,211,869	\$ 17,373,007	\$ 17,337,379	\$ 1,247,497
Total assets	<u>\$ 1,211,869</u>	<u>\$ 17,373,007</u>	<u>\$ 17,337,379</u>	<u>\$ 1,247,497</u>
LIABILITIES				
Temporary withholdings liabilities	\$ 1,159,061	\$ 18,240,043	\$ 18,169,157	\$ 1,229,947
Accounts payable	-	1,593,281	1,593,281	-
Due to other funds	52,808	16,990,554	17,025,812	17,550
Total liabilities	<u>\$ 1,211,869</u>	<u>\$ 36,823,878</u>	<u>\$ 36,788,250</u>	<u>\$ 1,247,497</u>

14. LABOR RELATIONS

Village employees are represented by three bargaining units, with the balance governed by Board of Trustees rules and regulations. Negotiated contracts are in place through May 31, 2014 for the Port Chester Police Association, and May 31, 2015 for the CSEA Civil Service. The Port Chester Professional Fire Fighters Association has an unsettled contract and is in negotiations as of May 31, 2014.

15. COMMITMENTS

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 appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are 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 \$100,000. As of May 31, 2014, the only significant encumbrance represented a \$230,984 billing service contract in the Sewer Fund. The Village had a total of \$357,466 encumbrances outstanding at May 31, 2014, for which \$126,482 and \$230,984 are reported in the General Fund and Sewer Fund, respectively.

16. CONTINGENCIES

Litigation—The Village is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the Village. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the Village.

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.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 7, 2014, 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

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended May 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
As of June 1, 2013	\$ -	\$ 62,360,000	\$ 62,360,000	0.00%	\$ 15,800,000	394.7%
As of June 1, 2012	-	60,390,000	60,390,000	0.00%	15,480,000	390.1%
As of June 1, 2011	-	55,870,000	55,870,000	0.00%	15,140,000	369.0%

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual—General Fund
Year Ended May 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 21,896,467	\$ 21,896,467	\$ 21,907,073	\$ 10,606
Other tax items	818,194	818,194	875,940	57,746
Non-property tax items	4,772,000	4,994,657	5,081,774	87,117
Departmental income	3,726,736	4,218,865	3,980,713	(238,152)
Use of money and property	404,966	404,966	381,765	(23,201)
Licenses and permits	224,522	224,522	338,712	114,190
Fines and forfeitures	2,014,000	2,379,143	2,384,120	4,977
Miscellaneous	136,000	136,000	98,781	(37,219)
State aid	695,129	746,173	756,328	10,155
Federal aid	124,082	124,082	111,185	(12,897)
Total revenues	<u>34,812,096</u>	<u>35,943,069</u>	<u>35,916,391</u>	<u>(26,678)</u>
EXPENDITURES				
Current:				
General government support	5,751,397	5,638,236	5,614,601	23,635
Public safety	10,927,965	11,447,476	11,393,629	53,847
Health	275,834	261,723	261,723	-
Transportation	1,582,232	1,739,004	1,738,358	646
Economic assistance and opportunity	373,681	398,744	398,744	-
Culture and recreation	1,932,843	1,987,204	1,987,204	-
Home and community services	2,308,668	2,411,497	2,258,869	152,628
Employee benefits	9,698,077	10,057,121	10,051,724	5,397
Debt service:				
Principal	2,830,000	2,443,088	2,430,000	13,088
Interest	1,047,217	1,064,196	1,064,196	-
Total expenditures	<u>36,727,914</u>	<u>37,448,289</u>	<u>37,199,048</u>	<u>249,241</u>
Excess (deficiency) of revenues over expenditures	<u>(1,915,818)</u>	<u>(1,505,220)</u>	<u>(1,282,657)</u>	<u>222,563</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000,000	1,000,000	1,121,442	121,442
Transfers out	(50,000)	(460,598)	(460,598)	-
Total other financing sources (uses)	<u>950,000</u>	<u>539,402</u>	<u>660,844</u>	<u>121,442</u>
Net change in fund balances*	(965,818)	(965,818)	(621,813)	344,005
Fund balances—beginning	<u>7,849,982</u>	<u>7,849,982</u>	<u>7,849,982</u>	<u>-</u>
Fund balances—ending	<u>\$ 6,884,164</u>	<u>\$ 6,884,164</u>	<u>\$ 7,228,169</u>	<u>\$ 344,005</u>

* The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance and re-appropriation of prior year encumbrances.

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

VILLAGE OF PORT CHESTER, NEW YORK
Note to the Required Supplementary Information
Year Ended May 31, 2014

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Sewer Fund. The Capital Projects Fund is appropriated on a project-length basis. No formal annual budgets are adopted for the Debt Service Fund and Special Purpose Fund. Appropriation limits, where applicable, for the Debt Service Fund and Special Purpose Fund are maintained based on debt schedules, individual grants and donations accepted by the Village. The periods of such grants may vary from the Village's fiscal year.

The appropriated budget is prepared by fund, function, and department. The Village Manager may make transfers of appropriations within a fund. Any modifications to appropriations resulting from increases in revenue estimates or supplemental reserve appropriations require a majority vote by the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the functional level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

Actual results of operations presented in accordance with GAAP and the Village's accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. Significant encumbrances are disclosed in the notes to the financial statements. The General Fund original budget for the year ended May 31, 2014 includes encumbrances from the prior year of \$165,818.

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SUPPLEMENTARY INFORMATION

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VILLAGE OF PORT CHESTER, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
May 31, 2014

	<u>Sewer</u>	<u>Debt Service</u>	<u>Special Purpose</u>	<u>Total Nonmajor Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,396	\$ -	\$ -	\$ 7,396
Restricted cash and cash equivalents	-	406,260	31,539	437,799
Receivables	1,328,579	-	-	1,328,579
Due from other funds	-	318	-	318
Total assets	<u>\$ 1,335,975</u>	<u>\$ 406,578</u>	<u>\$ 31,539</u>	<u>\$ 1,774,092</u>
LIABILITIES				
Accounts payable	300	-	-	300
Accrued liabilities	97,609	-	-	97,609
Due to other funds	921,442	-	-	921,442
Total liabilities	<u>1,019,351</u>	<u>-</u>	<u>-</u>	<u>1,019,351</u>
FUND BALANCES				
Restricted	-	406,578	31,539	438,117
Committed	230,984	-	-	230,984
Assigned	85,640	-	-	85,640
Total fund balances	<u>316,624</u>	<u>406,578</u>	<u>31,539</u>	<u>754,741</u>
Total liabilities and fund balances	<u>\$ 1,335,975</u>	<u>\$ 406,578</u>	<u>\$ 31,539</u>	<u>\$ 1,774,092</u>

VILLAGE OF PORT CHESTER, NEW YORK
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended May 31, 2014

	<u>Sewer</u>	<u>Debt Service</u>	<u>Special Purpose</u>	<u>Total Nonmajor Funds</u>
REVENUES				
Departmental income	\$ 1,335,975	\$ -	\$ -	\$ 1,335,975
Use of money and property	-	5,128	-	5,128
Miscellaneous	-	34,111	35,858	69,969
Total revenues	<u>1,335,975</u>	<u>39,239</u>	<u>35,858</u>	<u>1,411,072</u>
EXPENDITURES				
Current:				
General government support	-	-	35,549	35,549
Home and community services	97,909	-	-	97,909
Debt service:				
Interest and other fiscal charges	-	126,200	-	126,200
Total expenditures	<u>97,909</u>	<u>126,200</u>	<u>35,549</u>	<u>259,658</u>
Excess (deficiency) of revenues over expenditures	<u>1,238,066</u>	<u>(86,961)</u>	<u>309</u>	<u>1,151,414</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(921,442)	(200,000)	-	(1,121,442)
Advanced refunding bonds	-	5,300,000	-	5,300,000
Payment to escrow agent	-	(5,343,282)	-	(5,343,282)
Premium on refunding bonds	-	157,994	-	157,994
Total other financing sources (uses)	<u>(921,442)</u>	<u>(85,288)</u>	<u>-</u>	<u>(1,006,730)</u>
Net change in fund balances	316,624	(172,249)	309	144,684
Fund balances—beginning	-	578,827	31,230	610,057
Fund balances—ending	<u>\$ 316,624</u>	<u>\$ 406,578</u>	<u>\$ 31,539</u>	<u>\$ 754,741</u>

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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 Mayor and Village Trustees
Village of Port Chester, New York:

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Port Chester, New York (the "Village") as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated October 7, 2014 (August 25, 2014 as to the Village of Port Chester Industrial Development Agency).

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") to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2014-001, that we consider to be a significant deficiency.

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 a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village's Response to Findings

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. The Village's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



October 7, 2014

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of Findings
Year Ended May 31, 2014

FINANCIAL STATEMENT FINDINGS SECTION

We consider the deficiency presented below to be a significant deficiency in internal control.

Finding 2014-001—Capital Projects Deficit

Criteria: Appropriate maintenance and review of individual capital projects and fund balances is necessary to produce a reliable and accurate presentation of the Village's financial condition relating to its Capital Projects Fund.

Condition and Context: As in prior years, the Village had capital projects that were in a deficit position. Additionally, there were projects that appeared inactive and had old outstanding purchase orders.

Effect or Potential Effect: The Village is at risk of inappropriately funding deficit capital projects. Additionally, the existence of inactive projects increases the risk of misstatement of the financial statements and the potential misappropriation of assets.

Cause: Capital projects in prior years were not closely monitored and maintained by the Village.

Recommendation: It is recommended that during its review procedures the Village appropriately close out inactive or completed projects.

Management Response: The Village has continued its aggressive review of its active and inactive capital projects to ensure that projects are being monitored, maintained and closed out on a timely basis. The Village has also continued its discussion and implementation of a Five (5) Year Capital Plan.

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