VILLAGE OF PORT CHESTER,
NEW YORK

Basic Financial Statements, Required Supplementary Information and Supplementary Information for the Year Ended May 31, 2016 and Independent Auditors' Reports

VILLAGE OF PORT CHESTER, NEW YORK
Table of Contents
Year Ended May 31, 2016

(continued)

(concluded)

Page

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended May 31, 2016 the Village implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment to GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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, as listed in the table of contents, 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 17, 2016 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 & Malecki LLP

October 17, 2016

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 fiscal year ended May 31, 2016. This document should be read in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative. For comparative purposes, certain items from the prior year have been reclassified to conform with the current year presentation.

Financial Highlights

- The liabilities and deferred inflows of resources of the Village's primary government exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $5,443,622 (*deficit net position*). This consists of $15,204,383 net investment in capital assets and $1,868,172 restricted for specific purposes, offset by an unrestricted net deficit of $22,516,177.
- The Village's primary government net position decreased by $2,489,149 during the year ended May 31, 2016.
- At the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of $3,620,342, a decrease of $5,327,257 in comparison with the prior year's fund balance of $8,947,599.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was $5,141,500, or approximately 13.3 percent of total General Fund expenditures and transfers out. This total amount is *available for spending* at the Village's discretion and constitutes approximately 67.2 percent of the General Fund's total fund balance of $7,649,735 at May 31, 2016.
- The Village's total bonded indebtedness decreased by $3,085,650 as a result of scheduled principal payments of $2,795,650, offset by the issuance of refunding bonds of $4,965,000, which refunded $5,255,000 of previously outstanding bonds.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the Village's assets, liabilities, and deferred outflows/inflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only 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, culture and recreation, home and community services, and interest and fiscal charges. The Village does not engage in any business-type activities.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the Port Chester Industrial Development Agency for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 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 nonmajor 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 15-18 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Village's own programs. The Village is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Village maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 19 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 20-44 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, the Village's net pension liability, 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 45-51 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 52-53.

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 and deferred inflows of resources exceeded assets and deferred outflows of resources by $5,443,622 at the close of the most recent fiscal year, as compared $2,954,473 (as restated) at the close of the fiscal year ended May 31, 2015.

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

	Governmental Activities May 31,	
	2016	2015 (as restated)
Current assets	$ 18,566,004	$ 15,812,025
Capital assets	48,974,365	44,751,458
Total assets	67,540,369	60,563,483
Deferred outflows of resources	11,488,894	1,130,963
Current liabilities	15,327,954	7,076,850
Noncurrent liabilities	67,450,195	57,509,518
Total liabilities	82,778,149	64,586,368
Deferred inflows of resources	1,694,736	62,551
Net position:		
Net investment in capital assets	15,204,383	15,046,689
Restricted	1,868,172	1,868,800
Unrestricted	(22,516,177)	(19,869,962)
Total net position	$ (5,443,622)	$ (2,954,473)

The largest positive portion of the Village's net position, $15,204,383, reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure), 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, $1,868,172, represents resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The remaining balance of net position, $22,516,177, is considered to be an unrestricted deficit.

Table 2, as presented below, shows the changes in net position for the years ended May 31, 2016 and May 31, 2015.

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

	Governmental Activities	
	Year Ended May 31,	
	2016	2015
Program revenues:		
Charges for services	$ 8,728,561	$ 9,243,886
Operating grants and contributions	233,242	175,185
Capital grants and contributions	314,823	338,348
General revenues	30,405,520	29,560,944
Total revenues	39,682,146	39,318,363
Program expenses	42,171,295	39,619,024
Change in net position	(2,489,149)	(300,661)
Net position—beginning	(2,954,473)	(2,056,220)
Restatement (see note 2)	-	(597,592)
Net position—ending	$ (5,443,622)	$ (2,954,473)

Overall revenues of the primary government increased 0.9 percent from the prior year, due primarily to increases in general revenues related to property taxes and miscellaneous revenues related to the sale of property. Total expenses increased by 6.4 percent from the year ended May 31, 2016, which is primarily attributed to an increase in public safety personnel costs.

A summary of primary government sources of revenues for the years ended May 31, 2016 and May 31, 2015 is presented on the following page in Table 3.

Table 3—Summary of Sources of Revenues—Primary Government

	Year Ended May 31,		Increase/(Decrease)	
	2016	2015	Dollars	Percent (%)
Charges for services	$ 8,728,561	$ 9,243,886	$ (515,325)	-5.6
Operating grants and contributions	233,242	175,185	58,057	33.1
Capital grants and contributions	314,823	338,348	(23,525)	(7.0)
Taxes	29,123,270	28,553,601	569,669	2.0
Use of money and property	9,639	9,803	(164)	(1.7)
Miscellaneous	569,508	349,756	219,752	62.8
State sources—unrestricted	703,103	647,784	55,319	8.5
Total revenues	$39,682,146	$39,318,363	$ 363,783	0.9

The most significant sources of revenues for the primary government for the year ended May 31, 2016 were taxes of $29,123,270, or 73.4 percent of total revenues, and charges for services of $8,728,561, or 22.0 percent of total revenues. Similarly, for the year ended May 31, 2015, the most significant sources of revenues for the primary government were taxes of $28,553,601, or 72.6 percent of total revenues, and charges for services of $9,243,886, or 23.5 percent of total revenues.

A summary of primary government program expenses for the years ended May 31, 2016 and May 31, 2015 is presented below in Table 4.

Table 4—Summary of Program Expenses—Primary Government

	Year Ended May 31,		Increase/(Decrease)	
	2016	2015	Dollars	Percent (%)
General government support	$ 8,394,893	$ 7,775,549	$ 619,344	8.0
Public safety	21,453,300	19,655,641	1,797,659	9.1
Health	261,723	261,723	-	0.0
Transportation	3,233,639	3,504,241	(270,602)	(7.7)
Economic assistance and opportunity	589,185	592,873	(3,688)	(0.6)
Culture and recreation	2,837,329	2,711,910	125,419	4.6
Home and community services	4,221,884	4,187,088	34,796	0.8
Interest and other fiscal charges	1,179,342	929,999	249,343	26.8
Total program expenses	$42,171,295	$39,619,024	$ 2,552,271	6.4

The most significant expense items for the primary government for the year ended May 31, 2016 were public safety of $21,453,300, or 50.9 percent of total expenses, general government support of $8,394,893, or 19.9 percent of total expenses, and home and community services of $4,221,884, or 10.0 percent of total expenses. Similarly, for the year ended May 31, 2015, the most significant expense items for the primary government were public safety of $19,655,641, or 49.6 percent of total expenses, general government support of $7,775,549, or 19.6 percent of total expenses, and home and community services of $4,187,088, or 9.9 percent of total expenses.

During the year ended May 31, 2016, public safety and general government support increased $1,797,659 and $619,344. The increase is primarily due to increased employee benefits related to the implementation of GASB Statements No. 68 and 71. The increase in employee benefits is allocated across program expense categories of the Village. Further, transportation expenses decreased by $270,602, mainly due to decreased personal service costs related to retirement buyout and overtime coupled with decreased sand and salt contractual purchases.

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* and *fund balance assigned to specific use* in special revenue funds 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 either an external party, the Village iteself, 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, 2016, the Village's governmental funds reported combined ending fund balances of $3,620,342, a decrease of $5,327,257 in comparison with the prior year. Excluding the Capital Projects Fund, the Village's governmental funds combined ending fund balance was $9,144,183. Approximately 56.2 percent, or $5,141,500, of this fund balance 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 $447,018, (2) restricted for particular purposes $2,259,592, (3) committed to particular purposes $272,421, or (4) assigned for particular purposes $1,023,651.

The General Fund is the chief operating fund of the Village. At May 31, 2016, the unassigned fund balance of the General Fund was $5,141,500, while total fund balance was increased to $7,649,735. 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 and transfers out. Unassigned fund balance represents approximately 13.3 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 19.8 percent of that same amount.

The total fund balance of the Village's General Fund increased by $19,386 during the current fiscal year. During the annual budget process, the Village anticipated utilizing $697,704 of fund balance (this included funds appropriated from fund balance, $135,636; and the re-appropriation of prior year's encumbrances, $562,068). As a result of spending less than anticipated, the Village's fund balance ended $717,090 higher than anticipated.

The Village's Capital Projects Fund ending fund balance was in a deficit position, ($5,523,841) at May 31, 2016. This deficit is anticipated to be remedied through future issuance of long-term debt. During the year ended May 31, 2016 the Capital Project Fund fund balance deficit increased by $5,458,775 due primarily to capital outlay expenditures financed by short-term debt.

The Village's Sewer Fund ending fund balance was $793,652. Approximately 100.0 percent, 793,652, of this amount is fund balance assigned for specific Sewer Fund use. Fund balance within the Sewer Fund increased by $188,857 primarily due to higher than anticipated revenues associated with departmental income.

The Village's Debt Service Fund ending fund balance was $621,420. Approximately 63.0 percent, 391,420, of this amount is fund balance restricted for specific Debt Service Fund use. Fund balance within the Debt Service Fund decreased by $74,625 due to the increase in expenditures for interest and other fiscal charges related to the bond refunding.

The Village's Special Purpose Fund balance was $79,376. This amount is restricted for specific Special Purpose Fund use. Fund balance within the Special Purpose Fund decreased by $2,100 related to the decrease in miscellaneous revenues.

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 allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues or appropriated fund balance. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget.

A summary of the General Fund results of operations for the year ended May 31, 2016 is presented below in Table 5.

Table 5—General Fund Budget

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues and other financing sources	$ 38,777,985	$ 38,815,028	$ 38,728,850	$ (86,178)
Expenditures and other financing uses	39,475,689	39,512,732	38,709,464	803,268
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ (697,704)	$ (697,704)	$ 19,386	$ 717,090

Original budget compared to final budget—During the year, the Village amended the budget for a $37,043 increase in estimated revenues and appropriations between the original and final adjusted budget. The majority of increase was attributed to additional fines and forfeitures revenues and public safety expenditures associated with personnel costs. The increase in appropriations was supported by 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 an overall favorable variance. General Fund total revenues and transfers in were $86,178 less than corresponding final budget revenues. General Fund total expenditures and transfers out were $803,268 less than corresponding final budget appropriations.

Capital Asset and Debt Administration

Capital assets—The Village's investment in capital assets for its governmental activities as of May 31, 2016, amounted to $48,974,365 (net of accumulated depreciation/amortization). 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 and amortization for the governmental activities at the years ended May 31, 2016 and May 31, 2015 are presented in below in Table 6.

Table 6—Summary of Capital Assets (Net of Accumulated Depreciation/Amortization)

	May 31,	
	2016	2015
Land	$ 904,938	$ 904,938
Construction in progress	11,823,707	6,422,394
Land improvements	3,339,920	3,487,147
Buildings and improvements	13,884,233	14,466,568
Infrastructure	14,990,429	15,154,381
Machinery and equipment	3,762,839	4,013,875
Intangible assets	268,299	302,155
Total	$ 48,974,365	$ 44,751,458

Additional information on the Village's capital assets can be found in Note 5 to the financial statements.

Long-term debt—At May 31, 2016, the Village had bonded debt outstanding of $27,570,000, as compared to $30,655,650 in the prior year. During the year ended May 31, 2016, the Village issued $4,965,000 of refunding bonds, which refunded $5,255,000 of previously outstanding bonds, and made scheduled principal payments of $2,795,650.

A summary of the Village's long-term liabilities at May 31, 2016 and May 31, 2015 is presented below in Table 7:

Table 7—Summary of Long-Term Liabilities

	May 31,	
	2016	2015 (as restated)
Serial bonds	$ 27,570,000	$ 30,655,650
Premiums on serial bonds	912,429	301,760
Compensated absences	4,719,759	4,697,082
OPEB obligation	21,648,960	19,118,724
Net pension liability	11,124,037	1,463,020
Judgments and claims	1,475,010	1,273,282
Total	$ 67,450,195	$ 57,509,518

Additional information on the Village's long-term liabilities can be found in Note 11 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, 2016 was 2.8 percent. This compares favorably to New York State's average unemployment rate of 4.7 percent and the national unemployment rate of 5.3 percent.

During the current fiscal year, the Village appropriated $100,000 of restricted fund balance for spending in the Village's 2016-2017 fiscal year budget. The 2016-2017 adopted budget appropriations total of $38,696,469 is an approximate a decrease of 0.6 percent as compared to $38,913,621 in 2015-2016. The Village's total tax levy in 2016-2017 is $22,993,840, which is an approximate increase of 0.4 percent as compared to $22,913,160 levied during the 2015-2016 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.

** THIS PAGE INTENTIONALLY LEFT BLANK **

BASIC FINANCIAL STATEMENTS

** THIS PAGE INTENTIONALLY LEFT BLANK **

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Net Position
May 31, 2016

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Agency
ASSETS		
Cash and cash equivalents	$ 5,139,168	$ 362,659
Restricted cash and cash equivalents	9,533,462	-
Receivables	1,572,717	-
Intergovernmental receivables	1,654,160	-
Due from Agency Fund	219,479	-
Prepaid items	447,018	2,246
Capital assets not being depreciated	12,728,645	-
Capital assets, net of accumulated depreciation/amortization	36,245,720	-
Total assets	67,540,369	364,905
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows—relating to pensions	11,062,099	
Deferred charge on refunding	426,795	-
Total deferred outflows of resources	11,488,894	-
LIABILITIES		
Accounts payable	1,890,787	5,803
Accrued liabilities	1,147,413	-
Intergovernmental payables	470,942	-
Bond anticipation notes payable	11,425,370	-
Unearned revenue	393,442	-
Noncurrent liabilities:		
Due within one year	3,269,193	-
Due within more than one year	64,181,002	-
Total liabilities	82,778,149	5,803
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows—relating to pensions	1,694,736	-
Total deferred inflows of resources	1,694,736	-
NET POSITION		
Net investment in capital assets	15,204,383	-
Restricted for:		
Workers' compensation	1,673,991	-
Liability claims	114,805	-
Special Purpose Fund	79,376	-
Unrestricted	(22,516,177)	359,102
Total net position	$ (5,443,622)	$ 359,102

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, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Component Unit: Industrial Development Agency
Primary government:						
Governmental activities:						
General government support	$ 8,394,893	$ 1,744,102	$ 30,832	$ 2,100	$ (6,617,859)	$ -
Public safety	21,453,300	4,516,429	53,259	245,230	(16,638,382)	-
Health	261,723	19,447	-	-	(242,276)	-
Transportation	3,233,639	75,197	-	-	(3,158,442)	-
Economic assistance and opportunity	589,185	-	-	-	(589,185)	-
Culture and recreation	2,837,329	489,493	-	-	(2,347,836)	-
Home and community services	4,221,884	1,883,893	149,151	67,493	(2,121,347)	-
Interest and other fiscal charges	1,179,342	-	-	-	(1,179,342)	-
Total primary government	$ 42,171,295	$ 8,728,561	$ 233,242	$ 314,823	(32,894,669)	-
Component unit:						
Industrial Development Agency	$ 69,792	$ -	$ 55,053	$ -		(14,739)
General revenues:						
Taxes					29,123,270	-
Use of money and property					9,639	357
Miscellaneous					569,508	-
State sources—unrestricted					703,103	-
Total general revenues					30,405,520	357
Change in net position					(2,489,149)	(14,382)
Net position—beginning, as restated (see Note 2)					(2,954,473)	373,484
Net position—ending					$ (5,443,622)	$ 359,102

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, 2016

	General	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 4,989,580	$ -	$ 149,588	$ 5,139,168
Restricted cash and cash equivalents	2,063,586	6,770,973	698,903	9,533,462
Receivables	765,909	3,277	803,531	1,572,717
Intergovernmental receivables	1,648,410	5,750	-	1,654,160
Due from other funds	222,093	420,230	21,833	664,156
Prepaid items	447,018	-	-	447,018
Total assets	$ 10,136,596	$ 7,200,230	$ 1,673,855	$ 19,010,681
LIABILITIES				
Accounts payable	$ 710,838	$ 1,178,156	$ 1,793	$ 1,890,787
Accrued liabilities	765,121	-	-	765,121
Intergovernmental payables	470,942	-	-	470,942
Due to other funds	265,170	1,893	177,614	444,677
Bond anticipation notes payable	-	11,425,370	-	11,425,370
Unearned revenue	274,790	118,652	-	393,442
Total liabilities	2,486,861	12,724,071	179,407	15,390,339
FUND BALANCES (DEFICIT)				
Nonspendable	447,018	-	-	447,018
Restricted	1,788,796	-	470,796	2,259,592
Committed	272,421	-	-	272,421
Assigned	-	-	1,023,652	1,023,652
Unassigned	5,141,500	(5,523,841)	-	(382,341)
Total fund balances (deficit)	7,649,735	(5,523,841)	1,494,448	3,620,342
Total liabilities and fund balances (deficit)	$ 10,136,596	$ 7,200,230	$ 1,673,855	$ 19,010,681

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, 2016

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

Total fund balances (deficit)—governmental funds (page 15)		$ 3,620,342
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $79,091,643 and the accumulated depreciation is $30,117,278.		48,974,365
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows related to employer contributions	$ 470,942	
Deferred outflows related to experience and investment earnings	10,591,157	
Deferred inflows of resources related to pension plans	(1,694,736)	9,367,363
For refunding bonds, the difference between the reacquisition price and the net carrying amount of the refunded debt should be reported as a deferred charge and recognized as a component of interest expense over either the lesser of the life of the debt issuance or the bonds refunded for the government-wide statements.		426,795
Net accrued interest expense for bond anticipation notes and serial bonds is not reported in the funds.		(382,292)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Serial bonds	$ (27,570,000)	
Premiums on serial bonds	(912,429)	
Compensated absences	(4,719,759)	
Other post-employment benefits obligation	(21,648,960)	
Net pension liability	(11,124,037)	
Judgments and claims	(1,475,010)	(67,450,195)
Net position of governmental activities		$ (5,443,622)

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, 2016

	General	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Real property taxes	$ 22,956,142	$ -	$ -	$ 22,956,142
Real property tax items	976,250	-	-	976,250
Non-property tax items	5,190,878	-	-	5,190,878
Departmental income	4,245,827	-	1,484,499	5,730,326
Use of money and property	288,326	-	3,256	291,582
Licenses and permits	362,643	-	-	362,643
Fines and forfeitures	2,353,009	-	-	2,353,009
Miscellaneous	145,838	225,199	174,684	545,721
State aid	808,017	245,230	-	1,053,247
Federal aid	128,328	67,493	-	195,821
Total revenues	37,455,258	537,922	1,662,439	39,655,619
EXPENDITURES				
Current:				
General government support	5,691,985	-	4,200	5,696,185
Public safety	12,041,855	-	-	12,041,855
Health	261,723	-	-	261,723
Transportation	1,572,580	-	-	1,572,580
Economic assistance and opportunity	385,192	-	-	385,192
Culture and recreation	2,044,279	-	-	2,044,279
Home and community services	2,306,355	-	272,515	2,578,870
Employee benefits	10,016,756	-	-	10,016,756
Debt service:				
Principal	2,795,650	-	-	2,795,650
Interest and other fiscal charges	886,089	-	103,087	989,176
Capital outlay	-	6,703,697	-	6,703,697
Total expenditures	38,002,464	6,703,697	379,802	45,085,963
Excess (deficiency) of revenues over expenditures	(547,206)	(6,165,775)	1,282,637	(5,430,344)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,273,592	707,000	-	1,980,592
Transfers out	(707,000)	-	(1,273,592)	(1,980,592)
Serial bond proceeds	-	-	4,965,000	4,965,000
Payment to escrow agent	-	-	(5,499,109)	(5,499,109)
Premium on serial bonds	-	-	637,196	637,196
Total other financing sources (uses)	566,592	707,000	(1,170,505)	103,087
Net change in fund balances (deficit)	19,386	(5,458,775)	112,132	(5,327,257)
Fund balances (deficit)—beginning	7,630,349	(65,066)	1,382,316	8,947,599
Fund balances (deficit)—ending	$ 7,649,735	$ (5,523,841)	$ 1,494,448	$ 3,620,342

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, 2016

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net change in fund balances (deficit)—total governmental funds (page 17)		$ (5,327,257)
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/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization expense in the current period.		
Capital asset additions, net of transfers	$ 6,878,445	
Depreciation/amortization expense	(2,655,538)	4,222,907
Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:		
Direct pension contributions	$ 470,942	
Cost of benefits earned net of employee contributions	(1,630,024)	(1,159,082)
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.		223,811
In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.		(169,868)
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	$ (4,965,000)	
Refunded bonds	5,255,000	
Premium on refunding bonds	(637,196)	
Repayment of serial bonds	2,795,650	
Amortization of bond premiums	26,527	
Change in compensated absences	(22,677)	
Change in other post-employment benefits obligation	(2,530,236)	
Change in judgments and claims	(201,728)	(279,660)
Change in net position of governmental activities		$ (2,489,149)

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, 2016

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 1,385,787
Total assets	$ 1,385,787
LIABILITIES	
Temporary withholdings liabilities	$ 1,166,308
Due to other funds	219,479
Total liabilities	$ 1,385,787

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 ("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, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges to external customers for support. The Village reports no business-type activities. Likewise, the primary government is reported separately from the legally separate component unit 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 Village and its component unit, an entity for which the Village is considered to be financially accountable.

Discretely Presented Component Unit—The component unit column in the basic financial statements includes the financial data of the Village's discretely presented component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village.

Village of Port Chester Industrial Development Agency—The Village of Port Chester Industrial Development Agency (the "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.

Related Organization—The Port Chester Housing Authority (the "Authority") is a related organization to the Village at May 31, 2016. Although the Village appoints a majority of the Authority's board, it may not remove any board members at will and the Village has no ongoing relationship with the appointees.

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 discussed earlier, the Village has one discretely presented component unit. While the Agency is not considered to be a major component unit, it is nevertheless shown in a separate column in 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*—The General Fund constitutes the primary operating fund of the Village and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is real property taxes.

- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities. The principal sources of revenue and financing for the Capital Projects Fund are federal and state grants, bond proceeds and transfers in from the Village's operating funds.

The Village also reports the following nonmajor governmental funds:

- *Sewer Fund*—The Sewer Fund is used to record all revenues and expenditures related to operation and maintenance of the Village's sewer operations. The principal source of revenue for the Sewer Fund is sewer rents.

- *Debt Service Fund*—The Debt Service 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*—The Special Purpose Fund is used to account for special projects or programs created for the benefit of the Village, generally funded through gifts and donations.

Additionally, the Village reports the following fund type:

Fiduciary Funds—These funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Agency Fund*. The Agency Fund is custodial in nature and does not involve measurement of results of operations. The Agency Fund accounts, such as payroll withholdings, are reported as liabilities.

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, pensions, other post-employment benefits, 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 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. The Village had no investments at May 31, 2016; 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 and cash equivalents 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 $5,000 and 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.

Land and construction in progress are not depreciated. The other capital assets of the primary government are depreciated or amortized using the straight line method over the estimated useful lives as presented below:

	Years
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*). At times, amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. At May 31, 2016, the Village has two items that qualify for reporting in this category. The first item is related to pensions reported in the government-wide financial statements. This represents the effect of the net change in the Village's proportion of the collective net pension liability, the difference during the measurement period between the Village's contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date. The second item is a deferred loss on refunding which the Village reports within its governmental activities. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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, 2016, the Village has one item that qualifies for reporting in this category. This item represents the effect of the net change in the Village's proportion of the collective net pension liability and the difference during the measurement periods between the Village's contributions and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide financial statements.

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 Expenses/Expenditures

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 by a given function or segment 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 the Town of Rye to be re-levied on the Town tax bill. The Town 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 financial purposes. At May 31, 2016, the Village reported $274,790 and $118,652 of unearned revenue in the General Fund and Capital Projects Fund, respectively. The Village received restricted cash in advance related to prepaid fees for programs and grants 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—The Village is mandated by New York State law to participate in the New York State Local Employee's Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

Other Post-Employment Benefits—In addition to providing pension benefits, the Village provides health insurance coverage and/or payments for fractional values of unused sick leave for certain retired employees at the time of retirement as discussed in Note 8.

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 expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended May 31, 2016, the Village implemented GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27;* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* GASB Statements No. 68 and No. 71 improve accounting and financial reporting by governments for pensions.

Future Impacts of Accounting Pronouncements—The Village has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 72, *Fair Value Measurement and Application;* No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; No. 77, *Tax Abatement Disclosures;* No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans;* and No. 79, *Certain External Investment Pools and Pool Participants*, effective for the year ending May 31, 2017, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68;* No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans;* No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*, and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73,* effective for the year ending May 31, 2018, and No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions,* effective for the year ending May 31, 2019. The Village is, therefore, unable to disclose the impact that adopting GASB Statements No. 72, 73, 74, 75, 76, 77, 78, 79, 80, 81 and 82 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets—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.

Deficit Fund Balances—At May 31, 2016, the Capital Projects Fund, a major fund, has a deficit fund balance of $5,523,841. The primary reason for the deficit 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.

2. RESTATEMENT OF FUND BALANCE AND NET POSITON

For the fiscal year ended May 31, 2016, the Village implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contribtuions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and No. 71 resulted in the reporting of deferred outflows of resources and deferred inflows of resources and liabilities related to the Village's participation in the New York State Employee's and Police and Fire Retirement Systems.

The Village’s net position has been restated as follows:

Net position—May 31, 2015, as previously stated	$ (2,356,881)
GASB Statements No. 68 and No. 71 implementation:	
Beginning system liability—Employees' Retirement System	(866,980)
Beginning system liability—Police and Fire Retirement System	(596,040)
Beginning deferred outflow of resources for:	
Contributions subsequent to the measurement date:	
Employees' Retirement System	178,538
Police and Fire Retirement System	299,115
Differences between expected and actual experience:	
Employees' Retirement System	27,753
Police and Fire Retirement System	71,879
Net difference between projected and actual investment earnings on pension plan investments:	
Employees' Retirement System	150,583
Police and Fire Retirement System	200,111
Beginning deferred inflow of resources for changes in proportion and differences between employer Contributions and proportionate share of contributions:	
Employees' Retirement System	(15,336)
Police and Fire Retirement System	(47,215)
Net position—May 31, 2015, as restated	$ (2,954,473)

3. 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 percent of all deposits not covered by Federal deposit insurance. The Village has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations 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, 2016 are as follows:

	Governmental Funds	Fiduciary Fund	Total
Petty cash (uncollateralized)	$ 1,150	$ -	$ 1,150
Deposits	14,671,480	1,385,787	16,057,267
Total	$ 14,672,630	$ 1,385,787	$ 16,058,417

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at May 31, 2016 as presented on the following page.

	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	15,802,045	14,807,267
Total	$ 17,052,045	$ 16,057,267

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At May 31, 2016, 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—These funds are set aside for future payment towards approved capital project spending, workers' compensation costs, liability claims, debt service costs, and special purpose fund programs. At May 31, 2016, the Village reported $9,533,462 of restricted cash within its governmental funds.

Investments—The Village had no investments at May 31, 2016.

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.

Discretely Presented Component Unit

Port Chester Industrial Development Agency—The Agency had unrestricted deposits of $362,659 which were held by the pledging financial institution's trust department or agent in the Agency's name.

4. RECEIVABLES

Major revenues accrued by the Village at May 31, 2016 consisted of the following:

Receivables—Primarily represents sewer billings receivable, and other miscellaneous amounts due from other individuals and agencies. Receivables at May 31, 2016 are as follows:

General Fund:		
Village Court	$ 219,240	
Con Edison	80,221	
Franchise fees	59,436	
Building Department	42,166	
Property lien	30,070	
Other	334,776	$ 765,909
Capital Projects Fund:		
Other		3,277
Sewer Fund:		
Sewer billings		803,531
Total governmental funds		$ 1,572,717

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, 2016 are:

General Fund:		
Sales tax	$ 1,054,247	
Property tax receivable	431,593	
Mortgage tax receivable	126,025	
Other	36,545	$ 1,648,410
Capital Projects Fund:		
Department of Environmental Conservation		5,750
Total governmental funds		$ 1,654,160

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended May 31, 2016 was as follows:

	Balance 6/1/2015	Increases	Decreases	Balance 5/31/2016
Capital assets, not being depreciated/amortized:				
Land	$ 904,938	$ -	$ -	$ 904,938
Construction in progress	6,422,394	6,703,697	1,302,384	11,823,707
Total capital assets, not being depreciated/amortized:	7,327,332	6,703,697	1,302,384	12,728,645
Capital assets, being depreciated/amortized:				
Land improvements	5,660,571	79,837	-	5,740,408
Buildings and improvements	20,199,529	-	-	20,199,529
Infrastructure	23,010,179	805,174	-	23,815,353
Machinery and equipment	15,701,312	592,121	63,398	16,230,035
Intangible assets	377,673	-	-	377,673
Total capital assets, being depreciated/amortized	64,949,264	1,477,132	63,398	66,362,998
Less accumulated depreciation/amortization for:				
Land improvements	2,173,424	227,064	-	2,400,488
Buildings and improvements	5,732,961	582,335	-	6,315,296
Infrastructure	7,855,798	969,126	-	8,824,924
Machinery and equipment	11,687,437	843,157	63,398	12,467,196
Intangible assets	75,518	33,856	-	109,374
Total accumulated depreciation/amortization	27,525,138	2,655,538	63,398	30,117,278
Total capital assets, being depreciated/amortized, net	37,424,126	(1,178,406)	-	36,245,720
Governmental activities capital assets, net	$ 44,751,458	$ 5,525,291	$ 1,302,384	$ 48,974,365

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

Governmental activities:	
General government support	$ 392,018
Public safety	795,141
Transportation	913,855
Economic assistance and opportunity	26,036
Culture and recreation	293,404
Home and community services	235,084
Total governmental activities	$ 2,655,538

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at May 31, 2016, were as follows:

	General Fund
Salary and employee benefits	$ 765,121

7. PENSION PLANS

Plan Description and Benefits Provided

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At May 31, 2016, the Village reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2016. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2015, with update procedures used to roll forward the total net pension liabilities to the measurement date. The Village's proportion of the net pension liabilities were based on projections of the Village's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the Village.

	PFRS	ERS
Measurement date	March 31, 2016	March 31, 2016
Net pension liability	$ 6,888,305	$ 4,235,732
Village's portion of the Plan's total net pension liability	0.2326512%	0.0263904%

For the year ended March 31, 2016, the Village recognized pension expenses of $2,520,247 and $1,498,042, respectively, for PFRS and ERS. At March 31, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	$ 61,782	$ 21,404	$ 1,041,429	$ 502,075
Changes of assumptions	2,969,526	1,129,542	-	-
Net difference between projected and actual earnings on pension plan investments	3,860,338	2,512,869	-	-
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	20,095	15,601	78,831	72,401
Village contributions subsequent to the measurement date	310,197	160,745	-	-
Total	$ 7,221,938	$ 3,840,161	$ 1,120,260	$ 574,476

The Village's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending May 31,	PFRS	ERS
2017	$ 1,365,951	$ 786,738
2018	1,365,951	786,738
2019	1,365,951	786,738
2020	1,312,201	744,725
2021	381,427	-

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

	PFRS	ERS
Measurement date	March 31, 2016	March 31, 2016
Actuarial valuation date	April 1, 2015	April 1, 2015
Interest rate	7.00%	7.00%
Salary scale	4.50%	3.80%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2015.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

	PFRS and ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
Measurement date	March 31, 2015	
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	100.0 %	

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the Village's proportionate share of the net pension liabilities calculated using the discount rate of 7.0%, as well as what the Village's proportionate share of the net pension liabilities would be if they were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	$ 15,385,755	$ 6,888,305	$ (234,399)
Employer's proportionate share of the net pension liability/(asset)—ERS	9,551,268	4,235,732	(255,669)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liabilities of the employers as of the valuation dates, were as follows:

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2015	April 1, 2015	
Employers' total pension liability	$ 30,347,727	$ 172,303,544	$ 202,651,271
Plan fiduciary net position	27,386,940	156,253,265	183,640,205
Employers' net pension liability	$ 2,960,787	$ 16,050,279	$ 19,011,066
System fiduciary net position as a percentage of total pension liability	90.2%	90.7%	90.6%

8. 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 recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. The Village contributions for the year ended May 31, 2016 were $2,128,878.

The Village's annual 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 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,	
	2016	2015
Annual required contribution ("ARC")	$ 3,680,891	$ 3,550,124
Interest on net OPEB obligation	860,343	755,100
Adjustment to ARC	117,880	117,880
Annual OPEB cost (expense)	4,659,114	4,423,104
Contributions made	(2,128,878)	(2,084,380)
Increase in net OPEB obligation	2,530,236	2,338,724
Net OPEB obligation—beginning	19,118,724	16,780,000
Net OPEB obligation—ending	$ 21,648,960	$ 19,118,724

Funding Status and Funding Progress—As of June 1, 2014, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for the Village was $64,623,195.

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 OPEB Cost	Contributions Made	Percentage Contributed
2016	$ 4,659,114	$ 2,128,878	45.7%
2015	4,423,104	2,338,724	52.9%
2014	5,210,000	1,780,000	34.2%

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 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 employer and plan members. 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, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of June 1, 2014 and measurement date of May 31, 2015. 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. RP-2000 Mortality Table for males and females is used for mortality rates. The rates of decrement due to retirement is based on the most recent decrement tables from the New York State Employees' Retirement System (ERS) and the New York State Police and Fire Retirement System (PFRS). The assumed rates of increase in health care vary from 5.0% to 8.0%. 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, 2016 was 22 years.

9. RISK MANAGEMENT

The primary general liability insurance policy of the Village is limited to $1,000,000 per occurrence and $2,000,000 in aggregate, with specific policy coverage for fire damage limited to $50,000, medical expense limited to $10,000, personal and advertising injury limited to $1,000,000, and bodily injury at a $50,000 deductible. The Village carries an umbrella liability policy limited to $10,000,000 per occurrence and $20,000,000 in aggregate over the underlying primary policies. The Village’s workers compensation and employer’s liability policies include coverage for accident and disease limited to $100,000 per accident and $500,000 for total disease at $100,000 per employee. In addition, the Village holds specific policy coverage at various limits for crime, public officials, law enforcement, accident and health, business auto, inland marine, and commercial property.

Judgments and Claims—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 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:

	Workers' Compensation	General Liability	Total Judgments and Claims
Balance at June 1, 2015	$ 1,106,837	$ 166,445	$ 1,273,282
Provision for claims and claims adjustments expenses	1,396,862	323,005	1,719,867
Claims and claims adjustment expenses paid	(1,411,039)	(107,100)	(1,518,139)
Balance at May 31, 2016	$ 1,092,660	$ 382,350	$ 1,475,010

	Workers' Compensation	General Liability	Total Judgments and Claims
Balance at June 1, 2014	$ 977,763	$ 334,435	$ 1,312,198
Provision for claims and claims adjustments expenses	1,506,561	119,567	1,626,128
Claims and claims adjustment expenses paid	(1,377,487)	(287,557)	(1,665,044)
Balance at May 31, 2015	$ 1,106,837	$ 166,445	$ 1,273,282

10. 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, 2016:

Description	Interest Rate	Maturity Date	Balance 6/1/2015	Issues	Redemptions	Balance 5/31/2016
Various capital projects	1.00%	2/24/2016	$ 4,075,000	$ -	$ 4,075,000	$ -
Various capital projects	2.00%	2/23/2017	-	11,425,370	-	11,425,370
Total			$ 4,075,000	$ 11,425,370	$ 4,075,000	$ 11,425,370

11. 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 serial bonds, compensated absences, other post-employment benefits ("OPEB") obligation, net pension liability and judgments and claims. The serial bonds 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, 2016 follows:

	Balance 6/1/2015 (as restated)	Additions	Reductions	Balance 5/31/2016	Due Within One Year
Serial bonds	$ 30,655,650	$ 4,965,000	$ 8,050,650	$ 27,570,000	$ 2,875,000
Premiums on serial bonds	301,760	637,196	26,527	912,429	84,454
Bonds payable	30,957,410	5,602,196	8,077,177	28,482,429	2,959,454
Compensated absences	4,697,082	1,750,491	1,727,814	4,719,759	235,988
OPEB obligation	19,118,724	4,659,114	2,128,878	21,648,960	-
Net pension liability*	1,463,020	9,661,017	-	11,124,037	-
Judgments and claims	1,273,282	1,719,867	1,518,139	1,475,010	73,751
Total	$ 57,509,518	$ 23,392,685	$ 13,452,008	$ 67,450,195	$ 3,269,193

(*reductions to the net pension liability are shown net of additions)

Serial Bonds—The Village issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. General obligation 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 10 to 20 years.

On February 23, 2016, the Village issued $4,965,000 in refunding bonds, which partially refunded the previously issued Series 2006A and 2007A public improvement bonds. The bonds were issued at a premium of $637,196 and included $88,027 of issuance costs. The interest on the refunding bonds ranged from 3.0 percent to 4.0 percent. The Village deposited $5,499,109 with an escrow agent and as a result, the portions of original Series 2006A and 2007B bonds, as described above, are considered refunded and the liability of these bonds, $1,915,000 and $3,340,000, respectively, has been removed from the financial statements. The difference between the reacquisition price and the amount refunded, $244,109, is reported as a deferred outflow of resources and will be amortized over the remaining life of the respective refunded debt.

A summary of additions and reductions for the year ended May 31, 2016 is presented below:

Purpose	Year of Issue/ Maturity	Interest Rate (%)	Balance 6/1/2015	Additions	Reductions	Balance 5/31/2016
Public Improvement Serial Bond	2005/2016	3.96	$ 250,000	$ -	$ 250,000	$ -
Public Improvement Serial Bond	5007/2017	4.00	2,210,000	-	2,060,000	150,000
Public Improvement Serial Bond	2008/2018	3.75	4,495,000	-	3,710,000	785,000
Public Improvement Serial Bond	2009/2028	4.25	1,845,000	-	110,000	1,735,000
Public Improvement Serial Bond	2010/2026	3.49	2,935,000	-	225,000	2,710,000
Public Improvement Refunding Serial Bond	2011/2022	3.00	2,170,000	-	340,000	1,830,000
Public Improvement Refunding Serial Bond	2012/2025	2.00-3.00	5,745,000	-	780,000	4,965,000
Public Improvement Refunding Serial Bond	2012/2025	2.00-3.30	2,285,000	-	40,000	2,245,000
Public Improvement Refunding Serial Bond	2014/2026	2.00-3.00	5,225,000	-	290,000	4,935,000
Public Improvement Serial Bond	2016/2018	1.00-5.00	3,495,650	-	245,650	3,250,000
Public Improvement Refunding Serial Bond	2016/2027	3.00-4.00	-	4,965,000	-	4,965,000
Total			$ 30,655,650	$ 4,965,000	$ 8,050,650	$ 27,570,000

Prior Years' Bond Refunding—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 bonds were issued at a premium of $157,994 and included $114,712 of issuance costs. The Village deposited $5,343,282 with an escrow agent and as a result, the portions of original Series 2004A and 2005B bonds 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 refunded bonds produced a net present value debt service savings of approximately $382,122. The difference between the reacquisition price and the amount refunded, $223,282, was reported as a deferred outflow of resources and will be amortized over the life of the refunding issuance. At May 31, 2016, the deferred outflow of resources had a balance of $182,686.

Amortization of Bond Premiums—As noted above, on February 23, 2016, the Village issued $4,965,000 in refunding bonds and received a premium of $637,196. The premium is being amortized on a straight-line basis over the life of the bonds, which mature on August 1, 2027. The entire premium was unamortized as of May 31, 2016. In 2015 the Village issued $3,495,650 in serial bonds and received a premium of $158,129. The premium is being amortized on a straight-line basis over the life of the bond, which matures in 2028. The unamortized premium as of May 31, 2016 was $145,965. In addition, on April 15, 2014, the Village issued bonds totaling $5,300,000 and received a premium of $157,994. The premium is being amortized on a straight-line basis over the life of the bond, which matures on August 15, 2025. The unamortized premium as of May 31, 2016 was $129,268.

Compensated Absences—As described in Note 1, the Village records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The liability for compensated absences at May 31, 2016 amounts to $4,719,759, of which $235,988 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 8, the Village provides health insurance coverage for certain retirees. The Village's 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 long-term OPEB liability is estimated to be $21,648,960 at May 31, 2016.

Net Pension Liability—The Village reported a liability for its proportionate share of the net pension liability for the Police and Fire Retirement System and Employees' Retirement System. The net pension liability is estimated to be $11,124,037 in the governmental activities. Refer to Note 7 for additional information related to the Village's net pension liability.

Judgments and Claims—As further explained in Note 9, the Village records the liabilities for workers' compensation and general liability claims. The long-term liability is estimated to be $1,475,010 as of May 31, 2016, of which management estimates $73,751 due within one year.

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

Year ending May 31,	Serial Bonds	Premiums on Serial Bonds	Compensated Absences	OPEB Obligation	Net Pension Liability	Judgments and Claims	Total
2017	$ 2,875,000	$ 84,454	$ 235,988	$ -	$ -	$ 73,751	$ 3,269,193
2018	2,950,000	84,454	-	-	-	-	3,034,454
2019	3,010,000	84,454	-	-	-	-	3,094,454
2020	3,075,000	84,454	-	-	-	-	3,159,454
2021	3,155,000	84,454	-	-	-	-	3,239,454
2022-2026	11,350,000	407,907	-	-	-	-	11,757,907
2027-thereafter	1,155,000	82,252	4,483,771	21,648,960	11,124,037	1,401,259	39,895,279
Total	$ 27,570,000	$ 912,429	$ 4,719,759	$ 21,648,960	$ 11,124,037	$ 1,475,010	$ 67,450,195

Interest requirements on serial bonds payable are as follows:

Year Ending May 31,	Interest
2017	$ 768,299
2018	699,378
2019	623,554
2020	542,791
2021	455,928
2022-2026	1,059,463
2027-thereafter	50,695
Total	$ 4,200,108

12. NET POSITION AND FUND BALANCE

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

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

Capital assets, net of accumulated depreciation	$ 48,974,365
Less: capital related debt	
Serial bonds	(27,331,250)
Bond anticipation notes	(11,425,370)
Unspent debt proceeds	5,472,272
Unamortized bond premiums	(912,429)
Deferred charge on refunding	426,795
Net investment in capital assets	$ 15,204,383

- ***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, 2016 includes:

- ***Prepaid Items***—Represents amounts prepaid to vendors and employees that are applicable to future accounting periods. The General Fund reported $447,018 of nonspendable fund balance at May 31, 2016.

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, 2016 includes:

	General Fund	Debt Service Fund	Special Purpose Fund	Total Restricted
Workers' compensation	$ 1,673,991	$ -	$ -	$ 1,673,991
Liability claims	114,805	-	-	114,805
Debt service	-	391,420	-	391,420
Special Purpose Fund	-	-	79,376	79,376
Total	$ 1,788,796	$ 391,420	$ 79,376	$ 2,259,592

- ***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 Debt Service***—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.

- ***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.

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, 2016, the Village reported the following commitments:

- ***Committed for Debt Service***—Represents amounts, $201,504, within the General Fund set aside for future payments on the Village's indebtedness.

- ***Committed for Encumbrances***—Represents amounts, $70,917, in the General Fund 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, 2016 and include:

	Sewer Fund	Debt Service Fund	Total Assigned
Specific use:			
Sewer Fund	$ 793,652	$ -	$ 793,652
Debt Service Fund	-	230,000	230,000
Total	$ 793,652	$ 230,000	$ 1,023,652

- ***Assigned to Specific Use***—Represents fund balance within the Sewer Fund and the Debt Service Fund 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.

13. 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, 2016 is presented on the following page.

Fund	Interfund Receivable	Interfund Payable
Governmental funds:		
General Fund	$ 222,093	$ 265,170
Capital Projects Fund	420,230	1,893
Sewer Fund	19,940	177,614
Debt Service Fund	1,893	-
Total governmental funds	664,156	444,677
Fiduciary funds:		
Agency Fund	-	219,479
Total	$ 664,156	$ 664,156

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, 2016:

Fund	Transfers in: General Fund	Capital Projects Fund	Total
Transfers out:			
General Fund	$ -	$ 707,000	$ 707,000
Sewer Fund	1,023,592	-	1,023,592
Debt Service Fund	250,000	-	250,000
Total	$ 1,273,592	$ 707,000	$ 1,980,592

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.

14. 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, 2016:

	Balance 6/1/2015	Increases	Decreases	Balance 5/31/2016
ASSETS				
Cash and cash equivalents	$ 1,152,692	$ 20,138,288	$ 19,905,193	$ 1,385,787
Total assets	$ 1,152,692	$ 20,138,288	$ 19,905,193	$ 1,385,787
LIABILITIES				
Temporary withholdings liabilities	$ 1,114,704	$ 22,012,116	$ 21,960,512	$ 1,166,308
Accounts payable	-	2,421,071	2,421,071	-
Due to other funds	37,988	20,084,118	19,902,627	219,479
Total liabilities	$ 1,152,692	$ 44,517,305	$ 44,284,210	$ 1,385,787

15. 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, 2018 for the Port Chester Police Association, and May 31, 2015 for the CSEA Civil Service. The Village terminated the firefighters association union on May 31, 2016.

16. 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, 2016, the Village reported no significant encumbrances. The Village had a total of $70,917 encumbrances outstanding at May 31, 2016, all of which are reported in the General Fund.

17. 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.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 17, 2016, 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.

* * * * *

** THIS PAGE INTENTIONALLY LEFT BLANK **

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF PORT CHESTER, NEW YORK

Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended May 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
As of June 1, 2014	$ -	$ 64,623,195	$ 64,623,195	-	$ 14,700,000	439.6%
As of June 1, 2013	-	62,360,000	62,360,000	-	15,800,000	394.7%
As of June 1, 2012	-	60,390,000	60,390,000	-	15,480,000	390.1%

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

	Year Ended May 31,	
	2016	**2015**
Measurement date	May 31, 2016	May 31, 2015
Village's proportion of the net pension liability	0.2326512%	0.2165375%
Village's proportionate share of the net pension liability	$ 6,888,305	$ 596,040
Village's covered-employee payroll	$ 8,427,768	$ 8,198,325
Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll	81.7%	7.3%
Plan fiduciary net position as a percentage of the total pension liability	99.0%	98.5%

*Information prior to the year ended May 31, 2015 is not available.

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of the Village's Contributions
Police and Fire Retirement System
Last Two Fiscal Years*

	Year Ended May 31,	
	2016	**2015**
Contractually required contributions	$ 1,794,850	$ 1,902,383
Contributions in relation to the contractually required contribution	(1,794,850)	(1,902,383)
Contribution deficiency (excess)	$ -	$ -
Village's covered-employee payroll	$ 8,427,768	$ 8,198,325
Contributions as a percentage of covered-employee payroll	21.3%	23.2%

*Information prior to the year ended May 31, 2015 is not available.

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

	Year Ended May 31,	
	2016	2015
Measurement date	May 31, 2016	May 31, 2015
Village's proportion of the net pension liability	0.0263904%	0.0256636%
Village's proportionate share of the net pension liability	$ 4,235,732	$ 866,980
Village's covered-employee payroll	$ 6,841,913	$ 6,356,581
Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.9%	13.6%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	97.2%

*Information prior to the year ended May 31, 2015 is not available.

VILLAGE OF PORT CHESTER, NEW YORK

Schedule of the Village's Contributions—
Employees' Retirement System
Last Two Fiscal Years*

	Year Ended May 31,	
	2016	**2015**
Contractually required contributions	$ 1,071,230	$ 1,236,515
Contributions in relation to the contractually required contribution	(1,071,230)	(1,236,515)
Contribution deficiency (excess)	$ -	$ -
Village's covered-employee payroll	$ 6,841,913	$ 6,356,581
Contributions as a percentage of covered-employee payroll	15.7%	19.5%

*Information prior to the year ended May 31, 2015 is not available

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual—General Fund
Year Ended May 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Real property taxes	$ 22,913,160	$ 22,913,160	$ 22,956,142	$ 42,982
Real property tax items	931,232	931,232	976,250	45,018
Non-property tax items	5,226,000	5,226,000	5,190,878	(35,122)
Departmental income	4,195,822	4,195,822	4,245,827	50,005
Use of money and property	263,700	263,700	288,326	24,626
Licenses and permits	280,557	280,557	362,643	82,086
Fines and forfeitures	2,554,000	2,584,187	2,353,009	(231,178)
Miscellaneous	86,100	86,100	145,838	59,738
State aid	734,311	741,167	808,017	66,850
Federal aid	119,511	119,511	128,328	8,817
Total revenues	37,304,393	37,341,436	37,455,258	113,822
EXPENDITURES				
Current:				
General government support	6,211,179	5,861,931	5,691,985	169,946
Public safety	11,684,277	12,041,855	12,041,855	-
Health	261,723	261,723	261,723	-
Transportation	1,582,739	1,581,825	1,572,580	9,245
Economic assistance and opportunity	401,915	401,915	385,192	16,723
Culture and recreation	2,108,593	2,113,451	2,044,279	69,172
Home and community services	2,817,543	2,642,312	2,306,355	335,957
Employee benefits	10,171,522	10,171,522	10,016,756	154,766
Debt service:				
Principal	2,795,650	2,795,650	2,795,650	-
Interest and other fiscal charges	925,548	925,548	886,089	39,459
Total expenditures	38,960,689	38,797,732	38,002,464	795,268
Excess (deficiency) of revenues over expenditures	(1,656,296)	(1,456,296)	(547,206)	909,090
OTHER FINANCING SOURCES (USES)				
Transfers in	1,473,592	1,473,592	1,273,592	(200,000)
Transfers out	(515,000)	(715,000)	(707,000)	8,000
Total other financing sources (uses)	958,592	758,592	566,592	(192,000)
Net change in fund balances*	(697,704)	(697,704)	19,386	717,090
Fund balances—beginning	7,630,349	7,630,349	7,630,349	-
Fund balances—ending	$ 6,932,645	$ 6,932,645	$ 7,649,735	$ 717,090

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

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

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The Capital Projects Fund is appropriated on a project-length basis. No formal annual budgets are adopted for the Sewer Fund, 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 Village 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, 2016 includes encumbrances from the prior year of $562,069.

** THIS PAGE INTENTIONALLY LEFT BLANK **

SUPPLEMENTARY INFORMATION

VILLAGE OF PORT CHESTER, NEW YORK

Combining Balance Sheet—Nonmajor Governmental Funds

May 31, 2016

	Sewer	Debt Service	Special Purpose	Total Nonmajor Funds
ASSETS				
Cash and cash equivalents	$ 149,588	$ -	$ -	$ 149,588
Restricted cash and cash equivalents	-	619,527	79,376	698,903
Receivables	803,531	-	-	803,531
Due from other funds	19,940	1,893	-	21,833
Total assets	$ 973,059	$ 621,420	$ 79,376	$ 1,673,855
LIABILITIES				
Accounts payable	$ 1,793	$ -	$ -	$ 1,793
Due to other funds	177,614	-	-	177,614
Total liabilities	179,407	-	-	179,407
FUND BALANCES				
Restricted	-	391,420	79,376	470,796
Assigned	793,652	230,000	-	1,023,652
Total fund balances	793,652	621,420	79,376	1,494,448
Total liabilities and fund balances	$ 973,059	$ 621,420	$ 79,376	$ 1,673,855

VILLAGE OF PORT CHESTER, NEW YORK

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended May 31, 2016

	Sewer	Debt Service	Special Purpose	Total Nonmajor Funds
REVENUES				
Departmental income	$ 1,484,499	$ -	$ -	$ 1,484,499
Use of money and property	125	3,131	-	3,256
Miscellaneous	340	6,232	2,100	8,672
Total revenues	1,484,964	9,363	2,100	1,496,427
EXPENDITURES				
Current:				
General government support	-	-	4,200	4,200
Home and community services	272,515	-	-	272,515
Debt service:				
Interest and other fiscal charges	-	103,087	-	103,087
Total expenditures	272,515	103,087	4,200	379,802
Excess (deficiency) of revenues over expenditures	1,212,449	(93,724)	(2,100)	1,116,625
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,023,592)	(250,000)	-	(1,273,592)
Advanced refunding bonds	-	4,965,000	-	4,965,000
Payment to escrow agent	-	(5,499,109)	-	(5,499,109)
Premium on serial bonds	-	803,208	-	803,208
Total other financing sources (uses)	(1,023,592)	19,099	-	(1,004,493)
Net change in fund balances	188,857	(74,625)	(2,100)	112,132
Fund balances—beginning	604,795	696,045	81,476	1,382,316
Fund balances—ending	$ 793,652	$ 621,420	$ 79,376	$ 1,494,448

Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

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, 2016, 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 17, 2016.

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 certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

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 Standard*s.

The Village's Response to Finding

The Village's response to the findings 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.

Drescher & Malecki LLP

October 17, 2016

FINANCIAL STATEMENT FINDINGS SECTION

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

Finding 2016-001—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.

View of Responsible Officials and Corrective Action Plan: The Village of Port Chester continuing to review its active and inactive capital projects to ensure that projects are being monitored, maintained and closed out on a timely basis. The Village is also still discussing the implementation of a Five (5) Year Capital Plan.

Finding 2016-002—Compensated Absences Accrual

Criteria: Adjustments to the compensated absence liability balance should be accurately calculated based upon the requirements set forth within each applicable union contract.

Condition and Context: The Village's compensated absences year end adjustment was found to be incorrectly calculated and applied. Only appointed/non-union employees may carry over unused vacation time from one year to the next. However, the various union agreements state that with the Village Manager's approval employees may carry over 5 days of unused vacation time that must be used within 60 days of the following fiscal year. Non-union/appointed employees may carry over up to 10 days of unused vacation time each fiscal year for a total not to exceed 45 total days unless prior approval is given by the Village Manager. It was observed that an estimated 84 employees had vacation accruals in excess of their approved carry over per the applicable union contract. Additionally, the Village does not ensure that accrued vacation time is used within 60 days of the following fiscal year. The total known and likely errors were $239,936 and $180,894 respectively.

Effect or Potential Effect: The Village is at risk of potentially misstating the compensated absences liability, in addition to overpayment of employee benefits.

Cause: There is a lack of review of excess vacation limits and enforcement of union/non-union contracts and agreements.

Recommendation: We recommend a review of the vacation accrual at year-end be performed by an employee independent of the payroll function. It is recommended that the Village review the union contracts and agreements to determine the proper balance of the compensated absences liability. Additionally, department heads should track the status of unused vacation time that is carried forward to ensure that it is used within 60 days of the subsequent fiscal year.

View of Responsible Officials and Corrective Action Plan: The issue regarding the referenced finding has been under review by the Village for some time. The findings indicate that the existing language within the labor agreement does not square with the recorded vacation time balances for a number of employees. Our review revealed the historical nature of these balances. Previous agreements acknowledged and accepted time balances in excess of annual accruals. They even permitted the employee to sell back time if desired. These provisions had been in place for a number of years but did little to eliminate the excess accruals. The current language of the labor agreement could be read to infer annual accruals of vacation time must be used in the year earned or lost but did not apply to the excess balances.

This matter was reviewed with Labor Counsel as the Village desired to reduce the liability of these compensated balances. Their advice was we could not simply delete the excess balances from the employee records since they had not taken the time in the year earned due in part to the changing contract language over the years.

The approach selected to address this issue was the collective bargaining process. The Village and Union had been negotiating for an extended period of time in an effort to reach a new agreement. The current agreement expired May 31, 2015. We reached a tentative agreement on November 8, 2016 and have prepared a Memorandum of Agreement which is being circulated to the parties for signature. It contains the following language for the new agreement:

"Despite the foregoing language (referencing the current contract language to use it or lose it) a number of employees have vacation balances in excess of the amount allowable in any given year. These employees will be permitted to sell back up to ten days annually for the purpose of reducing their excess vacation days. In addition such employees will be required to use ten days of excess annual leave as well as the current year's entitlement each year until they come into compliance with the requirement to use vacations days within the fiscal year they were granted. The Village will not hinder such employees from complying with this process. The terms set forth in this paragraph will sunset when all employees have used their annual vacation days within the fiscal year and have no excess days remaining."