

**VILLAGE OF PORT CHESTER,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information and Supplemental and Federal Financial
Assistance Schedules for the Year Ended May 31, 2011
and Independent Auditors' Reports*

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the Village of Port Chester Industrial Development Agency discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Port Chester, New York (the "Village") as of and for the year ended May 31, 2011, which collectively comprise the Village's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2011, and the respective changes in financial position and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as listed in the forgoing table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of Village management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining and individual fund statements, as listed in the table of contents, are presented for purposes of additional analysis and the accompanying schedule of expenditures of federal awards is presented for the purpose of additional analyses as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic financial statements. These financial statements and schedules are the responsibility of the Village's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

 Drexler & Malin LLP

November 4, 2011

(August 23, 2011 as to the Village of Port Chester Industrial Development Agency)

VILLAGE OF PORT CHESTER, NEW YORK
Management's Discussion and Analysis
Year Ended May 31, 2011

As management of the Village of Port Chester, New York (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended May 31, 2011. 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 relating to the year ended May 31, 2010 presentation have been reclassified.

Financial Highlights

- ◆ The assets of the Village's primary government exceeded its liabilities at the close of the fiscal year by \$5,294,804. Of this amount, \$15,690,213 represents the Village's investment in capital assets net of related debt. Additionally, at May 31, 2011 the Village considers \$3,179,292 as restricted net assets and recognizes a deficit balance of \$13,574,701 within its unrestricted classification.
- ◆ The Village's total primary government net assets decreased \$2,041,699 as a result of this year's activity.
- ◆ At the close of the current fiscal year, the Village's governmental funds reported combined ending fund balance of \$11,114,594, a decrease of \$2,710,439 in comparison with the prior year. This decrease is primarily due to Capital Projects Fund expenditures exceeding revenues.
- ◆ The General Fund reported a net decrease in fund balance this year of \$142,879. At May 31, 2011, unreserved, undesignated fund balance for the General Fund was \$4,768,937, or approximately 13.5 percent of total General Fund expenditures.
- ◆ During the year ended May 31, 2011, the Village issued refunding debt in the amount of \$3,485,000. Considering the refunding and payments made on the debt outstanding, the Village's total bonded indebtedness decreased by \$2,461,081.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the Village:

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the Village's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Village's financial status as a whole.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick 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 opportunity and development, culture and recreation, and home and community services.

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. The Village has two kinds of funds: governmental funds and a fiduciary fund.

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 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 balance (deficit) provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains five individual governmental funds: the General Fund, the Capital Projects Fund, the Section 8 Housing Assistance, the Special Purpose Fund and the Debt Service Fund. 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 Village's major funds, which include the General Fund, the Capital Projects Fund and Section 8 Housing Assistance. Data from the other two governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 15-19 of this report.

Fiduciary fund. 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 maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 20 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 21-39 of this report.

Other information. As stated earlier, the financial statements include a section with combining statements that provide details about the nonmajor governmental funds, which are added together and presented in a single column in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as useful indicator of a government’s financial position. In the case of the Village’s primary government, assets exceeded liabilities by \$5,294,804 at the close of the May 31, 2011 fiscal year, as compared to assets exceeding liabilities by \$7,336,503 at May 31, 2010.

Table 1—Condensed Statement of Net Assets (Deficit)-Primary Government—May 31, 2011

	May 31,	
	2011	2010
Current assets	\$ 17,317,122	\$ 18,350,950
Capital assets	43,892,768	42,433,090
Total assets	<u>61,209,890</u>	<u>60,784,040</u>
Current liabilities	6,494,730	4,861,654
Non-current liabilities	<u>49,420,356</u>	<u>48,585,883</u>
Total liabilities	<u>55,915,086</u>	<u>53,447,537</u>
Net assets (deficit):		
Invested in capital assets,		
net of related debt	15,690,213	12,915,947
Restricted	3,179,292	2,979,952
Unrestricted	<u>(13,574,701)</u>	<u>(8,559,396)</u>
Total net assets	<u>\$ 5,294,804</u>	<u>\$ 7,336,503</u>

At May 31, 2011, total assets of the Village are \$61,209,890. The largest portion of total assets is its capital assets, net of accumulated depreciation in the amount of \$43,892,768.

The Village’s liabilities totaled \$55,915,086 at May 31, 2011. The largest portion of the liabilities is bonds payable debt of \$36,241,000.

The Village had favorable current ratios of 2.67 and 3.77 at May 31, 2011 and 2010, respectively. Such a ratio implies that the Village may have sufficient assets on hand to cover its liabilities that will come due in the coming year. Table 2, as shown below, presents the current ratio for the Village at May 31, 2011 and May 31, 2010.

Table 2—Current Assets and Current Liabilities—May 31, 2011

	May 31,	
	2011	2010
Current assets	\$ 17,317,122	\$ 18,350,950
Current liabilities	6,494,730	4,861,654
Ratio of current assets to current liabilities	2.67	3.77

The largest portion, \$15,690,213, of the Village's net assets reflects its investment in capital assets net of related debt. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additionally, \$3,179,292 of net assets is considered restricted net assets, which represents resources that are subject to external restrictions on how they may be used. The Village also reports a deficit for unrestricted net assets in the amount of \$13,574,701.

Total net assets decreased by \$2,041,699 from prior year. The decrease can be primarily attributed to a sharp decline in program revenues within capital grants and contributions, while expenses also declined from the year ended May 31, 2010, but not as much as program revenues.

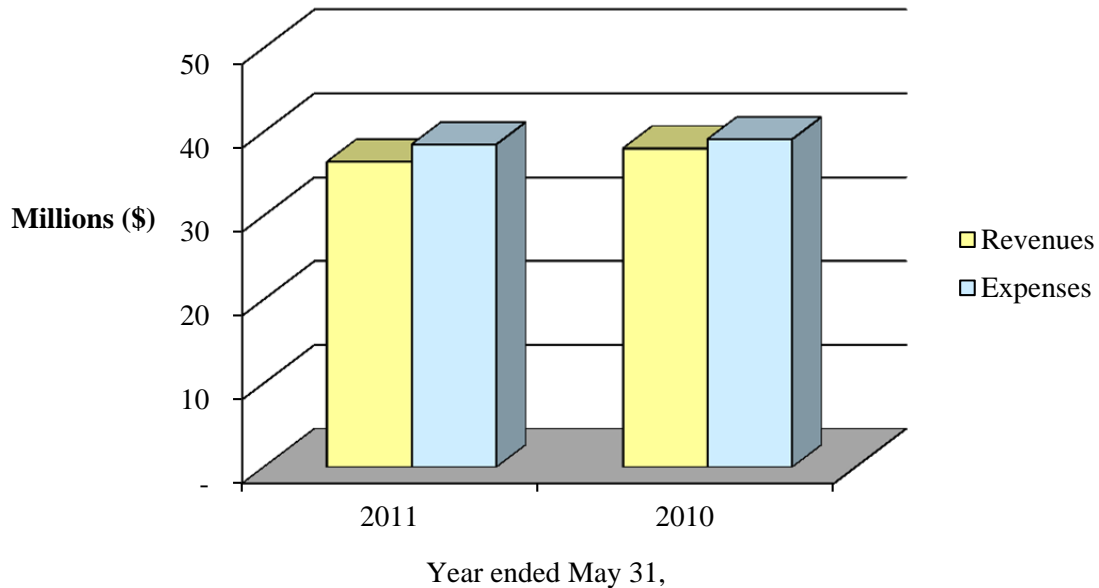
Table 3, as presented below, shows the changes in net assets for the year ended May 31, 2011:

Table 3—Condensed Statement of Changes in Net Assets-Primary Government—Year Ended May 31, 2011

	Year Ended May 31,	
	2011	2010
Program revenues:		
Charges for services	\$ 5,772,874	\$ 4,849,905
Operating grants and contributions	232,305	451,285
Capital grants and contributions	1,074,347	3,566,511
General revenues	<u>29,359,600</u>	<u>29,147,252</u>
Total revenues	36,439,126	38,014,953
 Program expenses	 <u>38,480,825</u>	 <u>39,096,884</u>
 Change in net assets	 (2,041,699)	 (1,081,931)
 Net assets—beginning	 <u>7,336,503</u>	 <u>8,418,434</u>
Net assets—ending	<u>\$ 5,294,804</u>	<u>\$ 7,336,503</u>

As shown below in Figure 1, revenues for the year ended May 31, 2011 decreased 4.1 percent and expenses decreased 1.6 percent, from the year ended May 31, 2010.

Figure 1—Comparison of Revenues and Expenses-Primary Government



Overall revenues decreased by 4.1 percent from 2010, primarily due to a decrease in grants and contributions received, which vary by year based on grants awarded. Overall expenditures decreased by 1.6 percent from the year ended May 31, 2010 to the year ended May 31, 2011. The slight decrease can be attributed to a decrease in economic opportunity and development expenses which previously encompassed all of Section 8 Housing Assistance Fund which has been transferred to the County.

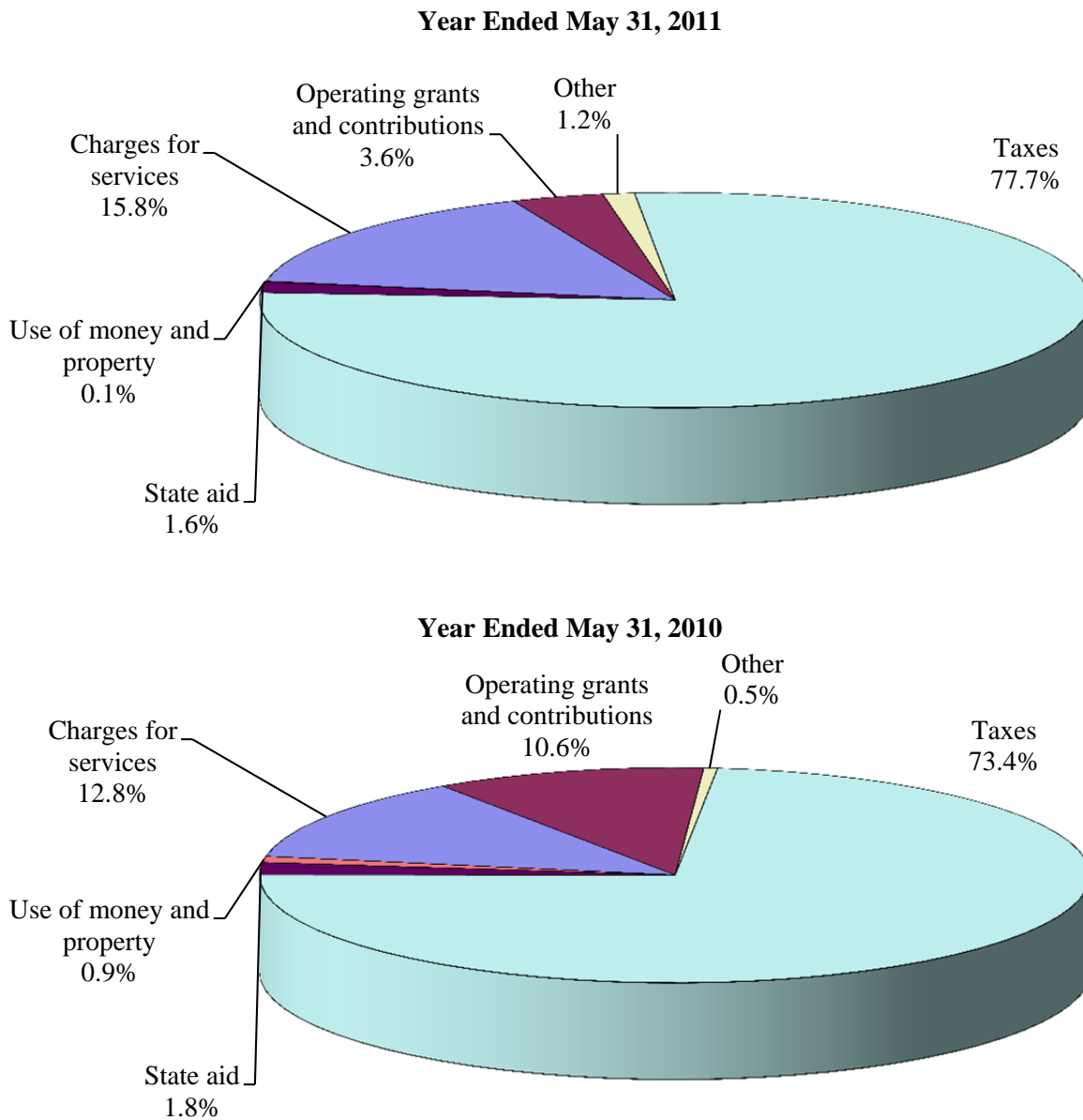
A summary of sources of revenues for the years ended May 31, 2011 and May 31, 2010 is presented below in Table 4:

Table 4—Summary of Sources of Revenues-Primary Government

	May 31,		Increase/(Decrease)	
	2011	2010	Dollars	Percent
Charges for services	\$ 5,772,874	\$ 4,849,905	\$ 922,969	19.0%
Operating and capital grants and contributions	1,306,652	4,017,796	(2,711,144)	-67.5%
Taxes	28,295,479	27,901,486	393,993	1.4%
Use of money and property	35,737	346,801	(311,064)	-89.7%
State aid	579,732	696,672	(116,940)	-16.8%
Other	448,652	202,293	246,359	121.8%
Total revenues	\$ 36,439,126	\$ 38,014,953	\$ (1,575,827)	-4.1%

As presented in Figure 2, below, the most significant source of revenues is taxes, which account for \$28,295,479, or 77.7 percent of total revenues for the year ended May 31, 2011 and \$27,901,486, or 73.4 percent of total revenues for the year ended May 31, 2010. The next largest source of revenue is charges for services, which accounts for \$5,772,874, or 15.8 percent of total revenues, for the year ended May 31, 2011 and \$4,849,905, or 12.8 percent of total revenues for the year ended May 31, 2010.

Figure 2—Revenues by Source



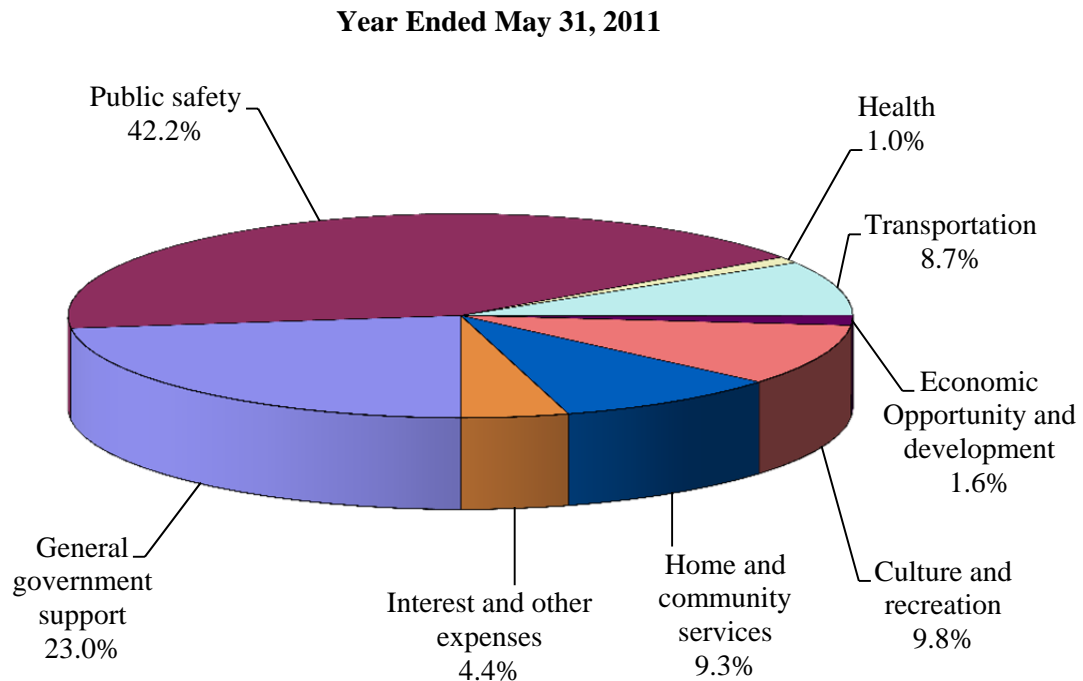
A summary of program expenses for the years ended May 31, 2011 and May 31, 2010 is presented below:

Table 5—Summary of Sources of Expenses

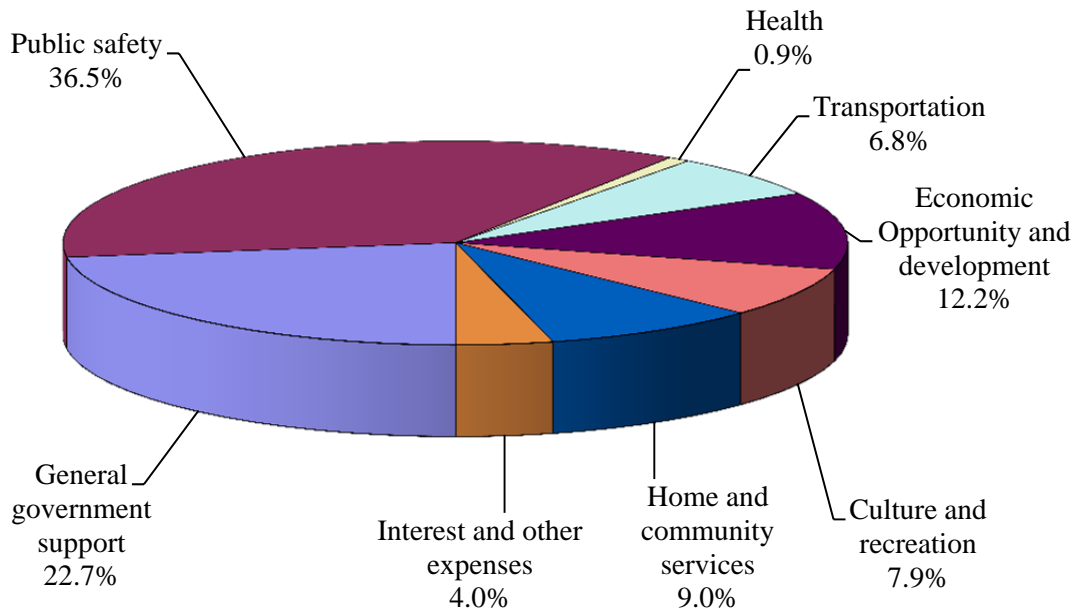
	May 31,		Increase/(Decrease)	
	2011	2010	Dollars	Percent
General government support	\$ 8,849,947	\$ 8,883,450	\$ (33,503)	-0.4%
Public safety	16,274,298	14,266,386	2,007,912	14.1%
Health	387,381	353,149	34,232	9.7%
Transportation	3,333,746	2,676,643	657,103	24.5%
Economic opportunity and development	602,981	4,787,945	(4,184,964)	-87.4%
Culture and recreation	3,753,005	3,076,878	676,127	22.0%
Home and community services	3,579,118	3,493,753	85,365	2.4%
Interest and other expenses	1,700,349	1,558,680	141,669	9.1%
Total program expenses	<u>\$ 38,480,825</u>	<u>\$ 39,096,884</u>	<u>\$ (616,059)</u>	-1.6%

As presented in Figure 3, below, the Village’s significant expense items for the year ended May 31, 2011 were public safety of \$16,274,298, or 42.2 percent of total expenses, general government support of \$8,849,947, or 23.0 percent of total expenses, and culture and recreation of \$3,753,005, or 9.8 percent of total expenses. Significant expense items for the year ended May 31, 2010 were public safety of \$14,266,386, or 36.5 percent of total expenses, general government support of \$8,883,450, or 22.7 percent of total expenses, and economic opportunity and development of \$4,787,945, or 12.2 percent of total expenses.

Figure 3—Program Expenses by Type



Year Ended May 31, 2010



Financial Analysis of the Village’s Funds

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, *unreserved fund balance (deficit)* may serve as a useful measure of a government’s net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the Village’s governmental funds reported combined ending fund balances of \$11,114,594, a decrease of \$2,710,439 in comparison with the prior year. This decrease is mainly attributed to the expenditures within Capital Projects Fund exceeding revenues.

At May 31, 2011, the General Fund reported fund balance of \$8,713,106, a decrease of \$142,879 from the prior year. Approximately 54.7 percent, or \$4,768,937, of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government’s discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for the subsequent year’s expenditures, as noted within the Village budget, or it was reserved for workers’ compensation payments, liability claims, encumbrances, prepaid expenditures, special purposes, capital projects or debt service.

The Capital Projects Fund fund balance decreased \$2,766,900 from prior year to a balance of \$1,224,865.

The Section 8 Housing Assistance Fund fund balance remained at zero. The program was transferred to the County during the year ended May 31, 2010. There was no activity recorded during the year ended May 31, 2011. However, a payable due to New York State remains at year end.

General Fund Budgetary Highlights. During the year end May 31, 2011, there was a \$521,824 net increase in appropriations between the original and final amended General Fund budget. Significant budget increases include:

- ◆ \$437,085 supplemental appropriations for public safety to compensate for increased costs related to overtime and retirement payouts that were not anticipated at the time of the original budget.
- ◆ \$284,649 supplemental appropriations for employee benefits to account for increased retirement and health insurance costs that were not anticipated to increase as largely as experienced at the time of the original budget.

These supplemental appropriations were transferred within budget line surplus and financed by appropriating General Fund fund balance.

Capital Asset and Debt Administration

Capital assets. The Village’s investment in capital assets for its governmental activities as of May 31, 2011, amounted to \$43,892,768 (net of accumulated depreciation). This investment in capital assets includes land, constructions in progress, land improvements, buildings and improvements, infrastructure, machinery and equipment.

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.

Capital assets net of depreciation for the governmental activities at the years ended May 31, 2011 and May 31, 2010 are presented below.

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

	May 31,	
	2011	2010
Land	\$ 606,100	\$ 890,022
Construction in progress	6,076,093	5,105,071
Land improvements	3,748,813	3,555,891
Building and improvements	16,322,046	16,241,187
Infrastructure	13,367,458	12,855,936
Machinery and equipment	<u>3,772,258</u>	<u>3,784,983</u>
Total	<u>\$ 43,892,768</u>	<u>\$ 42,433,090</u>

Additional information on the Village’s capital assets can be found in Note 7 of this report.

Long-term debt. At May 31, 2011, the Village had total bonded debt outstanding of \$36,241,000, as compared to \$38,702,081 in the prior year.

Additional information on the Village’s long-term debt can be found in Note 8 of this report.

Economic Factors

The unemployment rate for the Village of Port Chester, New York at May 2011 was 5.9 percent, which is a slight increase from 5.6 percent a year ago. This compares favorably to New York State's average unemployment rate of 7.8 percent and is also favorable compared to the national average rate of 9.1 percent. Unemployment rates, amongst various other factors, are considered in preparing the Village's budgets.

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 Treasurer's Office, Village of Port Chester, 222 Grace Church Street, Port Chester, NY 10573.

BASIC FINANCIAL STATEMENTS

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VILLAGE OF PORT CHESTER, NEW YORK
Statement of Net Assets (Deficit)
May 31, 2011

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Agency
ASSETS		
Cash and cash equivalents	\$ 12,873,327	\$ 261,387
Investments	1,317,729	-
Accounts receivable	616,231	-
Due from other governments	2,197,985	-
Internal balances	2,195	-
Prepaid expenses	309,655	-
Capital assets not being depreciated	6,682,193	-
Capital assets being depreciated (net of accumulated depreciation)	37,210,575	-
Total assets	61,209,890	261,387
LIABILITIES		
Accounts payable	1,501,428	24,116
Accrued liabilities	609,437	-
Retainage payable	143,654	-
Due to other governments	625,598	-
Due to employee retirement system	837,406	-
Unearned revenue and other liabilities	777,207	-
Bond anticipation notes payable	2,000,000	-
Non-current liabilities:		
Due within one year	2,619,968	-
Due within more than one year	46,800,388	-
Total liabilities	55,915,086	24,116
NET ASSETS:		
Investment in capital assets, net of related debt	15,690,213	-
Restricted	3,179,292	-
Unrestricted	(13,574,701)	237,271
Total net assets	\$ 5,294,804	\$ 237,271

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, 2011

<u>Function/Program</u>	<u>Expense</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Industrial Development Agency</u>
Primary Government:						
General government support	\$ 8,849,947	\$ 1,260,315	\$ 8,000	\$ -	\$ (7,581,632)	\$ -
Public safety	16,274,298	3,378,502	35,589	-	(12,860,207)	-
Health	387,381	18,705	-	-	(368,676)	-
Transportation	3,333,746	27,880	-	267,915	(3,037,951)	-
Economic opportunity and development	602,981	-	-	-	(602,981)	-
Culture and recreation	3,753,005	446,403	-	10,937	(3,295,665)	-
Home and community services	3,579,118	641,069	188,716	795,495	(1,953,838)	-
Interest and other fiscal charges	1,700,349	-	-	-	(1,700,349)	-
Total primary government	<u>\$ 38,480,825</u>	<u>\$ 5,772,874</u>	<u>\$ 232,305</u>	<u>\$ 1,074,347</u>	<u>(31,401,299)</u>	<u>-</u>
Component Unit:						
Industrial Development Agency	<u>\$ 99,766</u>	<u>\$ 145,500</u>	<u>\$ -</u>	<u>\$ -</u>		<u>45,734</u>
General revenues:						
Taxes					28,295,479	-
Use of money and property					35,737	695
State aid					579,732	-
Miscellaneous					448,652	-
Total general revenues					<u>29,359,600</u>	<u>695</u>
Change in net assets					(2,041,699)	695
Net assets—beginning					7,336,503	190,842
Net assets—ending					<u>\$ 5,294,804</u>	<u>\$ 191,537</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Balance Sheet—Governmental Funds
May 31, 2011

	General Fund	Capital Projects Fund	Section 8 Housing Assistance	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 8,189,699	\$ 2,880,127	\$ 625,598	\$ 1,177,903	\$ 12,873,327
Investments	561,316	756,413	-	-	1,317,729
Accounts receivable	607,328	8,903	-	-	616,231
Due from other funds	3,915	233,833	-	440	238,188
Due from other governments	1,569,228	628,757	-	-	2,197,985
Prepaid expenditures	309,655	-	-	-	309,655
Total assets	<u>\$ 11,241,141</u>	<u>\$ 4,508,033</u>	<u>\$ 625,598</u>	<u>\$ 1,178,343</u>	<u>\$ 17,553,115</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 911,846	\$ 589,582	\$ -	\$ -	\$ 1,501,428
Accrued liabilities	317,235	-	-	-	317,235
Due to other funds	233,833	440	-	1,720	235,993
Retainage payable	-	143,654	-	-	143,654
Due to other governments	-	-	625,598	-	625,598
Due to employee retirement system	837,406	-	-	-	837,406
Deferred revenue	227,715	549,492	-	-	777,207
Bond anticipation notes payable	-	2,000,000	-	-	2,000,000
Total liabilities	<u>2,528,035</u>	<u>3,283,168</u>	<u>625,598</u>	<u>1,720</u>	<u>6,438,521</u>
Fund balances (deficit):					
Reserved for:					
Workers' compensation payments	1,888,382	-	-	-	1,888,382
Liability claims	114,287	-	-	-	114,287
Encumbrances	338,840	-	-	-	338,840
Prepaid expenditures	309,655	-	-	-	309,655
Special purposes	-	-	-	60,072	60,072
Capital projects	-	3,242,341	-	-	3,242,341
Debt service	468,005	-	-	1,116,551	1,584,556
Unreserved:					
Designated for subsequent year's expenditures	825,000	-	-	-	825,000
Undesignated	4,768,937	(2,017,476)	-	-	2,751,461
Total fund balances (deficit)	<u>8,713,106</u>	<u>1,224,865</u>	<u>-</u>	<u>1,176,623</u>	<u>11,114,594</u>
Total liabilities and fund balances (deficit)	<u>\$ 11,241,141</u>	<u>\$ 4,508,033</u>	<u>\$ 625,598</u>	<u>\$ 1,178,343</u>	<u>\$ 17,553,115</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
May 31, 2011

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances—total governmental funds		\$ 11,114,594
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$62,090,148 and the accumulated depreciation is \$18,197,380.		43,892,768
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is \$292,202 at year end.		(292,202)
Long-term liabilities, including bonds payable, judgments and claims, compensated absences, other post-employment benefits ("OPEB"), and retirement liabilities are not due and payable in the current period and therefore are not reported in the funds. The effect of these items are:		
Bonds payable	\$ (36,241,000)	
Compensated absences	(4,161,957)	
OPEB liability	(7,100,000)	
Judgments and claims	<u>(1,917,399)</u>	<u>(49,420,356)</u>
Net assets of governmental activities		<u>\$ 5,294,804</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds
Year Ended May 31, 2011

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$23,188,634	\$ -	\$ -	\$23,188,634
Other tax items	557,434	-	-	557,434
Non-property tax items	4,549,411	-	-	4,549,411
Departmental income	3,473,543	-	-	3,473,543
Use of money and property	296,879	-	10,624	307,503
Licenses and permits	262,221	-	-	262,221
Fines and forfeitures	1,763,629	-	-	1,763,629
Miscellaneous	286,271	112,221	98,906	497,398
State aid	622,348	267,915	-	890,263
Federal aid	113,393	806,432	-	919,825
Total revenues	<u>35,113,763</u>	<u>1,186,568</u>	<u>109,530</u>	<u>36,409,861</u>
EXPENDITURES				
Current:				
General government support	5,217,854	-	-	5,217,854
Public safety	10,939,887	-	-	10,939,887
Health	261,723	-	-	261,723
Transportation	1,724,476	-	-	1,724,476
Economic opportunity and development	378,614	-	-	378,614
Culture and recreation	2,177,506	-	66,978	2,244,484
Home and community services	2,205,117	-	-	2,205,117
Employee benefits	8,309,149	-	-	8,309,149
Capital outlay	-	3,680,513	-	3,680,513
Debt service:				
Principal	2,581,081	-	45,000	2,626,081
Interest	1,577,402	-	-	1,577,402
Total expenditures	<u>35,372,809</u>	<u>3,680,513</u>	<u>111,978</u>	<u>39,165,300</u>
(Deficiency) of revenues (under) expenditures	<u>(259,046)</u>	<u>(2,493,945)</u>	<u>(2,448)</u>	<u>(2,755,439)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	350,000	233,833	506,788	1,090,621
Transfers out	(233,833)	(506,788)	(350,000)	(1,090,621)
Proceeds of advanced refunding bond issuance	-	-	3,485,000	3,485,000
Cost of advanced refunding				
bond issuance, net of premium	-	-	(51,865)	(51,865)
Payments to escrow for advanced refunding	-	-	(3,388,135)	(3,388,135)
Total other financing sources (uses)	<u>116,167</u>	<u>(272,955)</u>	<u>201,788</u>	<u>45,000</u>
Net change in fund balances	(142,879)	(2,766,900)	199,340	(2,710,439)
Fund balances—beginning	<u>8,855,985</u>	<u>3,991,765</u>	<u>977,283</u>	<u>13,825,033</u>
Fund balances—ending	<u>\$ 8,713,106</u>	<u>\$ 1,224,865</u>	<u>\$ 1,176,623</u>	<u>\$ 11,114,594</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Fund to the Statement of Activities
Year Ended May 31, 2011

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances—total governmental funds \$ (2,710,439)

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

Net capital asset additions, deletions and reclassifications	\$ 3,764,357	
Depreciation expense	<u>(2,304,679)</u>	1,459,678

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 assets. Also, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Net principal payments on serial bonds	\$ 2,626,081	
Refunded debt	3,320,000	
Issuance of serial bonds	(3,485,000)	
Change in accrued interest	<u>43,535</u>	2,504,616

In the statement of activities, certain operating expenses—other post employment benefits ("OPEB"), judgments and claims, and compensated absences (vacation & sick leave)—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 is as follows:

Compensated absences	\$ 349,869	
OPEB	(3,070,000)	
Judgments and claims	<u>(575,423)</u>	<u>(3,295,554)</u>

Change in net assets of governmental activities \$ (2,041,699)

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

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VILLAGE OF PORT CHESTER, NEW YORK
Statement of Revenues, Expenditures and Changes in
Fund Balances—Budget and Actual (GAAP Basis)—General Fund
Year Ended May 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property taxes	\$ 23,187,552	\$ 23,187,552	\$ 23,188,634	\$ 1,082
Other tax items	607,481	607,481	557,434	(50,047)
Non-property tax items	3,450,000	3,450,000	4,549,411	1,099,411
Departmental income	3,025,943	3,025,943	3,473,543	447,600
Use of money and property	350,000	350,000	296,879	(53,121)
Licenses and permits	143,380	143,380	262,221	118,841
Fines and forfeitures	1,804,000	1,866,142	1,763,629	(102,513)
Miscellaneous	56,500	56,500	286,271	229,771
State aid	628,194	636,194	622,348	(13,846)
Federal aid	109,439	109,448	113,393	3,945
Total revenues	<u>33,362,489</u>	<u>33,432,640</u>	<u>35,113,763</u>	<u>1,681,123</u>
EXPENDITURES				
Current:				
General government support	5,731,348	5,217,854	5,217,854	-
Public safety	10,502,802	10,939,887	10,939,887	-
Health	275,834	261,723	261,723	-
Transportation	1,541,764	1,724,476	1,724,476	-
Economic opportunity and development	402,107	378,614	378,614	-
Culture and recreation	2,122,954	2,177,506	2,177,506	-
Home and community services	2,253,979	2,205,117	2,205,117	-
Employee benefits	8,024,500	8,309,149	8,309,149	-
Debt service:				
Principal	2,581,081	2,581,081	2,581,081	-
Interest	1,551,237	1,577,402	1,577,402	-
Total expenditures	<u>34,987,606</u>	<u>35,372,809</u>	<u>35,372,809</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,625,117)</u>	<u>(1,940,169)</u>	<u>(259,046)</u>	<u>1,681,123</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	950,000	950,000	350,000	(600,000)
Transfers out	(97,212)	(233,833)	(233,833)	-
Total other financing sources (uses)	<u>852,788</u>	<u>716,167</u>	<u>116,167</u>	<u>(600,000)</u>
Net change in fund balances	(772,329)	(1,224,002)	(142,879)	1,081,123
Fund balances—beginning	<u>8,855,985</u>	<u>8,855,985</u>	<u>8,855,985</u>	<u>-</u>
Fund balances—ending	<u>\$ 8,083,656</u>	<u>\$ 7,631,983</u>	<u>\$ 8,713,106</u>	<u>\$ 1,081,123</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Statement of Fiduciary Net Assets—Fiduciary Fund
May 31, 2011

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 1,327,005
Total assets	<u>\$ 1,327,005</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Temporary withholding liabilities	\$ 1,324,810
Due to other funds	<u>2,195</u>
Total liabilities	<u>\$ 1,327,005</u>

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

VILLAGE OF PORT CHESTER, NEW YORK
Notes to the Financial Statements
Year Ended May 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 (“GAAP”) as applied to governmental units. 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.

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 serves as the chief executive officer 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).

The financial reporting entity is in accordance with Government Accounting Standards No. 14, *The Financial Reporting Entity*.

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 School District.

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

The Village of Port Chester Industrial Development Agency (“Agency”) is a public benefit corporation created by State legislation to promote the economic welfare, recreation opportunities and prosperity of the Village’s inhabitants. Members of the Agency are appointed by Board of Trustees. Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The Village is not liable for Agency bonds or notes. The governing board of the Agency serves at the pleasure of the Village Board and, therefore, the Village is considered able to impose its will on the Agency. Since the Agency does not provide services entirely or almost entirely to the Village of Port Chester, the financial statements of the Agency have been reflected as a discretely presented component unit.

Government-wide and Fund Financial Statements.

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which

rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Indirect Expenses* have been included as part of the program expenses reported for the various functional activities. *Program revenues* include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items are not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

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

Governmental fund 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. Property taxes are considered to be available if collected within sixty-days of the fiscal year end. A ninety-day availability period is used for revenue recognition for all other governmental fund revenues. Property taxes associated with the current fiscal period as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. 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, certain claims and other post employment benefit obligations 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.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Property taxes, sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. There were no significant revenues considered as not subject to accrual.

The Village considers the following governmental funds as major funds:

- ◆ *General Fund*—The General Fund constitutes the primary operating fund of the Village in that it includes all revenues and expenditures not required by law to be accounted for in other funds.
- ◆ *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- ◆ *Section 8 Housing Assistance*—This fund is used to account for grant monies related to the Section 8 Housing Assistance Program. The Village transferred its Section 8 Housing Assistance Program operations to Westchester County during the year ended May 31, 2010. As of May 31, 2011, the remaining funds, \$625,598, are payable to New York State and are reported as amounts due to other governments.

Additionally, the Village reports the following governmental funds:

- ◆ *Special Purpose Fund*—This fund is used to account for specific purposes that were created to benefit the Village, generally funded through gifts and donations.
- ◆ *Debt Service Fund*—This is used to account for resources accumulated and reserved for future debt service.

Fiduciary Fund—The Agency Fund is used to account for assets held by the Village as an agent for individuals, other governments, or other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

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

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

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

Budgets and Budgetary Accounting—An annual budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances outstanding at year-end are accounted for on the lapsing method, which reappropriates encumbrances in the subsequent years' budget. Accordingly, the Village reserves fund balance for all encumbrances it intends to honor in the subsequent period. All unencumbered balances lapse at year-end.

The Capital Projects Fund and Special Purpose Fund appropriations are not included in the Village’s annual budget. Instead, appropriations are approved through a Village Board resolution at the grant/project’s inception and lapse upon completion/termination of the grant/project.

Encumbrances—In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is generally employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on hand, funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments—The Village participates in a cooperative investment pool established pursuant to General Municipal Law that meets the definition of a 2a7-like pool.

Property taxes—Village property taxes are levied annually on June 1. The Village tax rate is based on the amount per \$1,000 assessed valuation. Taxes may be paid to the Village between June 1 and December 31.

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

Capital Assets—Capital assets, which include property, buildings, equipment and infrastructure assets (e.g. roads, bridges, drainage systems and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price level index to deflate the cost to the acquisition year or estimated acquisition year).

Property, plant, equipment and infrastructure of the Village are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-50
Buildings and improvements	20-50
Infrastructure	25-50
Machinery and equipment	5-10

Risk Management—The Village is exposed to various risks of loss related to damage and destruction of assets, vehicle liability, injuries to employees, health insurance and unemployment insurance. These risks are covered by commercial insurance purchased from independent third parties.

Compensated Absences—The various collective bargaining agreements provide for the payment of accumulated vacation and sick leave upon separation from service. The liability for such accumulated leave is reflected in the government-wide financial statements as current and long-term liabilities. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement. The liability for compensated absences includes salary related payments, where applicable.

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

Unearned/Deferred Revenues—Unearned/deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In government-wide financial statements, unearned revenues consist of amounts from grants received before the eligibility requirements have been met.

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

Future Impacts of Accounting Pronouncements — During the year ended May 31, 2011, the Village implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. These statements did not have a material impact on the Village's financial position or results of operations.

The Village has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*, effective for the year ending May 31, 2012; and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*, effective for the year ending May 31, 2013; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending May 31, 2014. The Village is, therefore, unable to disclose the impact that adopting GASB Statement Nos. 54, 57, 59, 60, 61, 62, 63 and 64 will have on its financial position and results of operations.

2. LEGAL COMPLIANCE—BUDGETS

Budgets and Budgetary Accounting—The Village generally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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.
2. The Board of Trustees, on or before March 31st, meets to discuss and review the tentative budget.
3. The Board of Trustees conducts a public hearing on the tentative budget to obtain taxpayer comments on or before April 15th.
4. After the public hearing and on or before May 1st, the Trustees meet to consider and adopt the budget.
5. Formal budgetary integration is employed during the year as a management control device for the General Fund.
6. A budget for the General Fund is legally adopted annually on a basis consistent with generally accepted accounting principles. The Capital Projects Fund is budgeted on a project basis. Annual budgets are not adopted for the Debt Service, Section 8 Housing Assistance or Special Purpose funds.
7. 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 Board of Trustees. Any modifications to appropriations resulting from increases in revenue estimates or supplemental reserve appropriations also require a majority vote by the Board.
8. Appropriations in the General Fund lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year, pursuant to the Uniform System of Accounts promulgated by the Office of the State Comptroller.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Village’s investment policies are governed by State statutes. The Village has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The Village is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The Village has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Cash at year-end consisted of:

	Governmental Activities	Fiduciary Fund	Balance
Petty cash (uncollaterized)	\$ 1,150	\$ -	\$ 1,150
Deposits	<u>12,872,177</u>	<u>1,327,005</u>	<u>14,199,182</u>
Total	<u>\$ 12,873,327</u>	<u>\$ 1,327,005</u>	<u>\$ 14,200,332</u>

Deposits—All deposits are carried at fair value.

The following is a summary of deposits:

	Bank Balance	Carrying Balance
FDIC Insured	\$ 9,118,156	\$ 8,171,447
Uninsured:		
Collateral held by bank's agent in the Village's name	<u>6,027,735</u>	<u>6,027,735</u>
	<u>\$ 15,145,891</u>	<u>\$ 14,199,182</u>

Custodial Credit Risk—In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. For investments, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of May 31, 2011, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the Village's name.

Investments—The Village participates in a cooperative investment pool established pursuant to General Municipal Law that meets the definition of a 2a7-like pool. The sponsoring agency of the pool is another governmental unit, which acting through the fiscal officer, is primarily responsible for executing the provisions of the cooperative agreement. The pool is authorized to invest in various securities issued by the United States and its agencies. The amount represents the amortized cost of the cooperative shares and is considered to approximate fair value. Additional information concerning the cooperative is presented in the annual report of the Cooperative Liquid Assets Securities System ("CLASS"), which may be obtained from MBIA Municipal Investors Services Corporation, 113 King Street, Armonk, NY 10504.

CLASS is rated AAA/V1+ by Fitch Ratings. Local government investment cooperatives in this rating category meet the highest standards for credit quality, conservative investment policies and safety of principal. The cooperative invests in a high quality portfolio of investments legally permissible for municipalities and schools in the State. The Village's investments at May 31, 2011 consisted of:

General Fund	\$ 561,316
Capital Projects Fund	<u>756,413</u>
Total investments	<u>\$ 1,317,729</u>

Port Chester Industrial Development Agency

The Agency's investment policies are governed by New York State statutes. There were no investments at May 31, 2011. All deposits are carried at fair value.

Cash and cash equivalents:

	<u>May 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
FDIC Insured	<u>\$ 261,387</u>	<u>\$ 261,218</u>

4. PROPERTY TAX

The Village is permitted by the State Constitution to levy taxes up to 2% of the five year average full valuation of taxable real estate located within the Village and any amounts appropriated for debt service. In accordance with this definition, the maximum amount of the levy for 2010-2011 was \$60,246,158, which exceeded the actual levy by \$37,058,606.

5. RECEIVABLES

Major revenues accrued by the Village at May 31, 2011:

Accounts Receivable—represents Village Court fees and fines turned over to the Treasurer's Office and utility taxes and franchise fees for business operation within the Village. Other miscellaneous items are also included. Amounts due to the Village at May 31, 2011 are:

General Fund:	
Village Court	\$ 166,427
Utility taxes	92,299
Franchise fees	89,307
Other	<u>259,295</u>
	\$ 607,328
Capital Projects Fund:	<u>8,903</u>
Total	<u><u>\$ 616,231</u></u>

Due from Other Governments—represents amounts due from other units of government, such as Federal, New York State, County of Westchester, other local governments. Amounts due the Village at May 31, 2011 are:

General Fund:			
Westchester County:			
Taxes receivable	\$ 1,497,130		
Other	<u>72,098</u>	\$ 1,569,228	
Capital Projects Fund:			
New York State:			
Department of Transportation	367,915		
Various grants	<u>260,842</u>	<u>628,757</u>	
		<u>\$ 2,197,985</u>	

6. INTERFUNDS

Interfund receivables and payables of the Village at May 31, 2011 consisted of the following:

	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 3,915	\$ 233,833
Capital Projects Fund	233,833	440
Debt Service Fund	440	1,720
Fiduciary Fund	-	<u>2,195</u>
Total	<u>\$ 238,188</u>	<u>\$ 238,188</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances.

The Village made the following transfers during the year ended May 31, 2011:

	Transfers out:			
	General Fund	Capital Projects Fund	Debt Service Fund	Total
Transfers in:				
General Fund	\$ -	\$ -	\$ 350,000	\$ 350,000
Capital Projects Fund	233,833	-	-	233,833
Debt Service Fund	-	<u>506,788</u>	-	<u>506,788</u>
	<u>\$ 233,833</u>	<u>\$ 506,788</u>	<u>\$ 350,000</u>	<u>\$ 1,090,621</u>

Transfers are used primarily to move funds from the Capital Projects Fund to the Debt Service Fund as bonded projects are completed and have available balances. Additionally, transfers move amounts earmarked in the operating funds to fulfill commitments for Capital Projects and General Funds' expenditures.

7. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2011 was as follows:

	Balance June 1, 2010	Reclassifications and Additions	Deletions	Balance May 31, 2011
Capital assets, not being depreciated:				
Land	\$ 890,022	\$ -	\$ 283,922	\$ 606,100
Construction in progress	<u>5,105,071</u>	<u>3,681,117</u>	<u>2,710,095</u>	<u>6,076,093</u>
Total capital assets, not being depreciated	<u>5,995,093</u>	<u>3,681,117</u>	<u>2,994,017</u>	<u>6,682,193</u>
Capital assets, being depreciated:				
Land improvements	4,660,955	489,579	(150,000)	5,000,534
Building and improvements	19,179,749	623,231	(51,800)	19,751,180
Infrastructure	16,501,544	1,174,380	-	17,675,924
Machinery and equipment	<u>13,093,878</u>	<u>790,067</u>	<u>(903,628)</u>	<u>12,980,317</u>
Total capital assets, being depreciated	<u>53,436,126</u>	<u>3,077,257</u>	<u>(1,105,428)</u>	<u>55,407,955</u>
Less accumulated depreciation for:				
Land improvements	(1,105,064)	(296,657)	150,000	(1,251,721)
Building and improvements	(2,938,562)	(542,372)	51,800	(3,429,134)
Infrastructure	(3,645,608)	(662,858)	-	(4,308,466)
Machinery and equipment	<u>(9,308,895)</u>	<u>(802,792)</u>	<u>903,628</u>	<u>(9,208,059)</u>
Total accumulated depreciation	<u>(16,998,129)</u>	<u>(2,304,679)</u>	<u>1,105,428</u>	<u>(18,197,380)</u>
Total capital assets, being depreciated, net	<u>36,437,997</u>	<u>772,578</u>	<u>-</u>	<u>37,210,575</u>
Governmental activities capital assets, net	<u>\$ 42,433,090</u>	<u>\$ 4,453,695</u>	<u>\$ 2,994,017</u>	<u>\$ 43,892,768</u>

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

Governmental activities:	
General government support	\$ 569,208
Public safety	146,169
Transportation	793,263
Economic opportunity and development	42,588
Culture and recreation	430,910
Home and community service	<u>322,541</u>
Total depreciation expense	<u>\$ 2,304,679</u>

8. LONG-TERM DEBT

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

Current Year's Advanced Refunding—During the current year, the Village issued \$3,485,000 in Refunding Serial Bonds ("2010 Bonds"), which collectively refund the previously issued 2001 bonds, originally issued for various purposes. The interest on the 2010 Bonds ranges from 2.0% to 4.0%. The payment to escrow agent totaled \$3,388,135 and issuance costs (net of reoffering premium and underwriter's discounts) were \$51,865. The proceeds were used to purchase non-callable, direct obligations of the United States of America, with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust fund to pay for all future debt service payments of the original bonds. As a result, the original 2001 bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2011 refinancing totaled \$3,320,000, has been removed from the financial statements. The 2011 refinancing resulted in an estimated economic gain of \$274,004.

Principal is paid annually, interest is paid semiannually and is recorded in the General Fund. A summary of additions and payments of bonds payable for the year ended May 31, 2011 can be found below:

	Interest Rate	Maturity	Balance June 1, 2010	Additions	Payments	Balance May 31, 2011
General Fund:						
Serial Bond Issue	5.25%	1995-2011	\$ 135,000	\$ -	\$ 135,000	\$ -
Serial Bond Issue	5.10%	1996-2011	325,000	-	160,000	165,000
Serial Bond Issue	4.25%	1998-2011	380,000	-	380,000	-
Serial Bond Issue	4.50%	2001-2021	3,575,000	-	3,575,000	-
Serial Bond Issue	4.10%	2002-2022	5,350,000	-	320,000	5,030,000
Serial Bond Issue	4.02%	2003-2024	3,055,000	-	150,000	2,905,000
Serial Bond Issue	5.70%	2003-2024	2,725,000	-	120,000	2,605,000
Serial Bond Issue	3.83%	2004-2021	2,995,000	-	195,000	2,800,000
Serial Bond Issue	3.96%	2005-2025	4,545,000	-	200,000	4,345,000
Taxable Pension Issue	4.80%	2006-2011	75,000	-	75,000	-
Serial Bond Issue	4.00%	2006-2026	2,840,000	-	115,000	2,725,000
Serial Bond Issue	3.75%	2007-2024	6,115,000	-	300,000	5,815,000
Serial Bond Issue	4.25%	2008-2028	2,348,081	-	93,081	2,255,000
Judgments & Claims	2.50%	2009-2015	483,000	-	83,000	400,000
Serial Bond Issue	3.49%	2009-2026	3,756,000	-	-	3,756,000
Refunding Bond Issue	3.00%	2011-2021	-	3,485,000	45,000	3,440,000
			<u>\$ 38,702,081</u>	<u>\$ 3,485,000</u>	<u>\$ 5,946,081</u>	<u>\$ 36,241,000</u>

Compensated Absences—As explained in Note 1, the Village records the value of compensated absences. Pursuant to collective bargaining agreements, civil service employees are entitled to be compensated for accumulated sick leave. Police employees do not receive compensation for accumulated sick leave. Vacation days may be accumulated at the discretion of the Village Manager. A non-current liability totaling \$4,161,957 has been recorded, of which management estimates that \$208,098 is due within one year. Since the payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

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

An analysis of the activity of unpaid claims liabilities is as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Balance at June 1, 2010	\$ 1,173,276	\$ 168,700	\$ 1,341,976
Provision for claims and claims adjustments expenses	1,812,535	198,177	2,010,712
Claims and claims adjustment expenses paid	<u>(1,382,861)</u>	<u>(52,428)</u>	<u>(1,435,289)</u>
Balance at May 31, 2011	<u>\$ 1,602,950</u>	<u>\$ 314,449</u>	<u>\$ 1,917,399</u>

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Balance at June 1, 2009	\$ 1,047,146	\$ 545,600	\$ 1,592,746
Provision for claims and claims adjustments expenses	1,494,125	341,469	1,835,594
Claims and claims adjustment expenses paid	<u>(1,367,995)</u>	<u>(718,369)</u>	<u>(2,086,364)</u>
Balance at May 31, 2010	<u>\$ 1,173,276</u>	<u>\$ 168,700</u>	<u>\$ 1,341,976</u>

OPEB Liability—The Village provides health insurance coverage and/or payment for fractional values of unused sick leave to eligible retired employees. See Note 10.

Annual principal requirements to amortize all debt outstanding as of May 31, 2011 are:

<u>Year ending</u> <u>May 31,</u>	<u>Serial</u> <u>Bonds</u>	<u>Compensated</u> <u>Absences</u>	<u>Judgments</u> <u>and Claims</u>	<u>OPEB</u> <u>Liability</u>	<u>Total</u>
2012	\$ 2,316,000	\$ 208,098	\$ 95,870	\$ -	\$ 2,619,968
2013	2,240,000	-	-	-	2,240,000
2014	2,335,000	-	-	-	2,335,000
2015	2,415,000	-	-	-	2,415,000
2016	2,415,000	-	-	-	2,415,000
2017-2021	13,600,000	-	-	-	13,600,000
2022-2026	10,345,000	-	-	-	10,345,000
Beyond	575,000	3,953,859	1,821,529	7,100,000	13,450,388
Total	<u>\$ 36,241,000</u>	<u>\$ 4,161,957</u>	<u>\$ 1,917,399</u>	<u>\$ 7,100,000</u>	<u>\$ 49,420,356</u>

Summary of Changes in Long-Term Debt—The following is a summary of changes in long-term debt for the year ended May 31, 2011:

	Balance June 1, 2010	Additions	Payments	Balance May 31, 2011	Due Within One Year
Bonds payable	\$ 38,702,081	\$ 3,485,000	\$ 5,946,081	\$ 36,241,000	\$ 2,316,000
Compensated absences	4,511,826	1,475,007	1,824,876	4,161,957	208,098
OPEB liability	4,030,000	4,670,000	1,600,000	7,100,000	-
Judgements & Claims	1,341,976	2,010,712	1,435,289	1,917,399	95,870
Total	<u>\$ 48,585,883</u>	<u>\$ 11,640,719</u>	<u>\$ 10,806,246</u>	<u>\$ 49,420,356</u>	<u>\$ 2,619,968</u>

9. PENSION PLANS

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

Funding Policy—The Systems are noncontributory except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976 who contribute 3% of their salary. The State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years of service or more of credited service. Employees hired after January 1, 2010 contribute 3% of their salary for the duration of their membership in the System. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employer.

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

	ERS	PFRS
2011	\$ 633,122	\$ 1,302,688
2010	415,940	1,199,314
2009	445,335	1,100,032

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- ◆ Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- ◆ Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2011 would be based on the pension value as of March 31, 2010.)

Legislation requires participating employers to make payments on a current basis. The Village contributions made to the System were equal to 100 percent of the contributions required for each year.

10. OTHER POSTEMPLOYMENT BENEFITS

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. There were 117 retirees receiving health care benefits at May 31, 2011.

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, although pre-funding moneys can arguably be “set aside” on the municipality’s balance sheet.

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 Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 on the following page shows the components of the Village’s annual OPEB cost for the past two years, the amount actually contributed to the plan, and the changes in the Village’s net OPEB obligation.

	2011	2010
Annual required contribution	\$ 4,720,000	\$ 3,470,000
Interest on net OPEB obligation	180,000	90,000
Adjustment to annual required contribution	<u>(230,000)</u>	<u>(80,000)</u>
Annual OPEB costs (expense)	4,670,000	3,480,000
Contributions made	<u>(1,600,000)</u>	<u>(1,400,000)</u>
Increase in net OPEB obligation	3,070,000	2,080,000
Net OPEB obligation - beginning of year	<u>4,030,000</u>	<u>1,950,000</u>
Net OPEB obligation - end of year	<u><u>\$ 7,100,000</u></u>	<u><u>\$ 4,030,000</u></u>

As of June 1, 2010, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$53,920,000.

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.

Funding Status and Funding Progress—As of May 31, 2011, the Village has had three actuarial valuations performed. Accordingly, information from the studies is presented in the Village's Schedule of Funding Progress and the Schedule of the Village's Contributions below.

The Village's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
As of June 1, 2008	\$ -	\$ 50,050,000	\$ 50,050,000	0%	\$ 14,200,000	3.52
As of June 1, 2009	\$ -	\$ 51,800,000	\$ 51,800,000	0%	\$ 14,680,000	3.53
As of June 1, 2010	\$ -	\$ 53,920,000	\$ 53,920,000	0%	\$ 15,560,000	3.47

The Schedule of the Village's Contributions is shown below:

Year Ended May 31,	Annual OPEB Cost	Contributions Made	Percentage Contributed
2009	\$ 3,320,000	\$ 1,370,000	41%
2010	\$ 3,480,000	\$ 1,400,000	40%
2011	\$ 4,670,000	\$ 1,600,000	34%

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

In the June 1, 2010 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of June 1, 2010 and measurement date of May 31, 2011. The expected investment rate of return on employer’s assets is 4.5%. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Village does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer’s assets. The expected inflation rate is 3.0%. The RP-2007 Mortality Table for males and females is used for mortality rates. The rates of decrement due to disability are assumed to be zero. The assumed rates of increase in health care vary from 5.0% to 9.5% and the administrative fees are assumed to increase at 3.0% per year. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis, therefore the remaining amortization period at May 31, 2011 was twenty-seven years.

11. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. The following is a summary of changes in assets and liabilities during the year ended May 31, 2011:

	Balance			Balance
	June 1, 2010	Additions	Deletions	May 31, 2011
ASSETS				
Cash	\$ 521,937	\$ 19,941,818	\$ 19,136,750	\$ 1,327,005
Due from other funds	72,900	19,039,162	19,112,062	-
Total assets	<u>\$ 594,837</u>	<u>\$ 38,980,980</u>	<u>\$ 38,248,812</u>	<u>\$ 1,327,005</u>
LIABILITIES				
Temporary withholdings liabilities	\$ 571,294	\$ 20,317,946	\$ 19,564,430	\$ 1,324,810
Accounts payable	23,543	1,652,246	1,675,789	-
Due to other funds	-	2,195	-	2,195
Total liabilities	<u>\$ 594,837</u>	<u>\$ 21,972,387</u>	<u>\$ 21,240,219</u>	<u>\$ 1,327,005</u>

12. LABOR RELATIONS

Village employees are represented by four bargaining units with the balance governed by Village Board rules and regulations. The CSEA Civil Service and the Port Chester Professional Fire Fighters Association both have a contract settled through May 31, 2011. The Port Chester Police Association and the CSEA Supervisory Unit both have an unsettled contract and are in negotiations as of May 31, 2011.

13. NET ASSETS, RESERVES AND DESIGNATIONS

The government wide financial statements utilize a net assets presentation. Net Assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

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

Capital assets, net of accumulated depreciation		\$ 43,892,768
Related debt:		
Serial bonds:		
Total serial bonds issued for capital assets	(31,912,901)	
Unspent debt proceeds reserved in general	468,005	
Unspent debt proceeds reserved in capital projects	<u>3,242,341</u>	
Net serial bonds issued for capital assets		<u>(28,202,555)</u>
Investment in capital assets, net of related debt		<u>\$ 15,690,213</u>

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

Workers' compensation payments		\$ 1,888,382
Liability claims		114,287
Special purposes		60,072
Debt service		<u>1,116,551</u>
Restricted Net Assets		<u>\$ 3,179,292</u>

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

In the fund financial statements, reservations that represent portions of fund balance that have been legally segregated for a specific use or is not appropriate for expenditure by the Village at May 31, 2011, and include:

- ◆ ***Reserved for Workers' Compensation Payments***—represents funds provided, pursuant to General Municipal Law, to fund the Village's payments for its self-insured workers' compensation program.
- ◆ ***Reserved for Liability Claims***—represents reserve established in accordance with section 6-n of the General Municipal Law and will be used to pay claims, actions or judgments against the Village that results from personal injuries or property damage.
- ◆ ***Reserved for Encumbrances***—represents funds accumulated for commitments related to unperformed contracts or purchase orders for goods or services.

- ◆ *Reserved for Prepaid Expenditures*—represents amounts established to account for certain costs paid in advance.
- ◆ *Reserved for Special Purposes*—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.
- ◆ *Reserved for Capital Projects*—represents amounts accumulated by the Village for the funding of various capital project expenditures.
- ◆ *Reserved for Debt Service*—represents amounts set aside for future payments on the Village's indebtedness.

Unreserved represents fund balance for which there are no restrictions on its use.

Designations represent unreserved fund balance for which there is intent by the Village to use fund balance for a specific purpose. Designations of fund balance at May 31, 2011 include:

- ◆ *Designated for Subsequent Year's Expenditures*—represents funds to be used to assist in supporting the subsequent year's authorized appropriations.

14. DEFICITS

Certain capital projects within the Capital Projects Fund have deficit unreserved fund balances at May 31, 2011. These deficits are expected to be remedied by future tax revenues, anticipated grants and proceeds from future bond issuances.

15. CONTINGENCIES

The Village receives numerous notices of claims for damages occurring generally from false arrest, negligence, bodily injury, breach of contract, defamation of character and invasion of privacy. The filing of such claims commences a statutory period for initiating judicial action. There are currently numerous actions of this type pending against the Village. It is the opinion of the counsel that an adverse decision in any of the claims would not significantly impair the Village's financial condition. Additionally, the Village is subject to various tax certiorari matters. The Village expects to go to trial in January, 2012 relating to a tax certiorari matter that management believes could be material but cannot be estimated at this time.

The Village receives significant financial assistance from numerous Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions that are specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the Village. The amount, if any, of the expenditures which may be disallowed cannot be determined at this time, although the Village expects such amounts to be immaterial to the Village's financial statements.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

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VILLAGE OF PORT CHESTER, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
May 31, 2011

	<u>Special Purpose Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 60,072	\$ 1,117,831	\$ 1,177,903
Due from other funds	<u>-</u>	<u>440</u>	<u>440</u>
Total assets	<u>\$ 60,072</u>	<u>\$ 1,118,271</u>	<u>\$ 1,178,343</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	<u>\$ -</u>	<u>\$ 1,720</u>	<u>\$ 1,720</u>
Total liabilities	<u>-</u>	<u>1,720</u>	<u>1,720</u>
Fund balances:			
Reserved for:			
Special purposes	60,072	-	60,072
Debt	<u>-</u>	<u>1,116,551</u>	<u>1,116,551</u>
Total fund balances	<u>60,072</u>	<u>1,116,551</u>	<u>1,176,623</u>
Total liabilities and fund balances	<u>\$ 60,072</u>	<u>\$ 1,118,271</u>	<u>\$ 1,178,343</u>

VILLAGE OF PORT CHESTER, NEW YORK
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended May 31, 2011

	<u>Special Purpose Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Use of money and property	\$ -	\$ 10,624	\$ 10,624
Miscellaneous	<u>96,682</u>	<u>2,224</u>	<u>98,906</u>
Total revenues	<u>96,682</u>	<u>12,848</u>	<u>109,530</u>
EXPENDITURES			
Current:			
Culture and recreation	66,978	-	66,978
Debt service:			
Principal	<u>-</u>	<u>45,000</u>	<u>45,000</u>
Total expenditures	<u>66,978</u>	<u>45,000</u>	<u>111,978</u>
Excess (deficiency) of revenues over (under) expenditures	<u>29,704</u>	<u>(32,152)</u>	<u>(2,448)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	506,788	506,788
Transfers out	-	(350,000)	(350,000)
Proceeds of advanced refunding bond issuance	-	3,485,000	3,485,000
Cost on advanced refunding bond issuance, net of premium	-	(51,865)	(51,865)
Payments to escrow for advanced refunding	<u>-</u>	<u>(3,388,135)</u>	<u>(3,388,135)</u>
Total other financing sources (uses)	<u>-</u>	<u>201,788</u>	<u>201,788</u>
Net change in fund balances	29,704	169,636	199,340
Fund balances—beginning	<u>30,368</u>	<u>946,915</u>	<u>977,283</u>
Fund balances—ending	<u>\$ 60,072</u>	<u>\$ 1,116,551</u>	<u>\$ 1,176,623</u>

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FEDERAL AWARDS

VILLAGE OF PORT CHESTER, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2011

Federal Grantor/Program Title	Federal CFDA Number	Federal Program Expenditures
U.S. Department of Agriculture:		
Passed through Westchester County:		
Supplemental Nutrition Assistance Program	10.551	\$ <u>9,064</u>
Total U.S. Department of Agriculture		<u>9,064</u>
U.S. Department of Housing and Urban Development:		
Passed through Westchester County:		
Community Development Block Grant/Entitlement Grants	14.218	643,321
Direct programs:		
Community Development Block Grants		
Economic Development Initiative	14.246	<u>152,174</u>
Total U.S. Department of Housing and Urban Development		<u>795,495</u>
U.S. Department of Justice—Bureau of Justice Assistance:		
Passed through New York State:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10,937
Direct programs:		
Bulletproof Vest Partnership Program	16.607	7,889
Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810	<u>3,505</u>
Total U.S. Department of Justice—Bureau of Justice Assistance		<u>22,331</u>
U.S. Department of Health and Human Services:		
Passed through Westchester County:		
Special Programs for the Aging—Title III, Part B— Grants for Supportive Services and Senior Centers	93.044	59,168
Special Programs for the Aging—Title III, Part C— Nutrition Services	93.045	<u>17,223</u>
Total U.S. Department of Health and Human Services		<u>76,391</u>
U.S. Department of Homeland Security:		
Direct programs		
Hazard Mitigation Grant	97.039	<u>16,544</u>
Total U.S. Department of Homeland Security		<u>16,544</u>
Total expenditures of federal awards		<u>\$ 919,825</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

VILLAGE OF PORT CHESTER, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended May 31, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Village of Port Chester (the "Village") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. BASIS OF ACCOUNTING

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Village's financial reporting system.

* * * * *

**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 the financial statements of the Village of Port Chester, New York (the "Village") as of and for the year ended May 31, 2011, and have issued our report thereon dated November 4, 2011 (August 23, 2011 as to the Village of Port Chester Industrial Development Agency). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Village is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-2 and 2011-3 to be significant deficiencies in internal control.

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Village in a separate letter dated November 4, 2011.

The Village's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Village Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Dershan & Malhotra LLP

November 4, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Village of Port Chester, New York (the "Village") with the types of compliance requirements described in the *U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2011. The Village's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended May 31, 2011. The results of our auditing procedures disclosed no instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management of the Village is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Village Trustees, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Drexler & Malin LLP

November 4, 2011

VILLAGE OF PORT CHESTER, NY
Schedule of Findings and Questioned Costs
Year Ended May 31, 2011

Part I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

1. Material weakness(es) identified? X Yes No
2. Significant deficiency(ies) identified? X Yes None reported
3. Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

4. Material weakness(es) identified? Yes X No
5. Significant deficiency(ies) identified? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? Yes X No

7. The Authority's major programs were:

Name of Federal Program or Cluster	CFDA Number
Community Development Block Grant/ Entitlement Grants	14.218

8. Dollar threshold used to distinguish between Type A and Type B programs? \$ 300,000
9. Auditee qualified as low-risk auditee? Yes X No

Part II. Financial Statement Findings Section

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

Finding 2011-1—Journal Entry Policy and Procedures

Criteria – Internal controls surrounding the journal entry posting and review process should be outlined in a formal policy.

Condition – While testing procedures surrounding journal entries at the Village, it was noted that the Village has no formal policy for, nor was there evidence of, an independent review and approval of journal entries.

Effect – Lack of oversight and review of journal entries could result in a number of misstatements, inappropriate classifications, or even misappropriation of funds.

Cause – The Village has no written policies for the preparation, posting and review of journal entries.

Recommendation – We recommend that the Village adopt a formal policy regarding the posting of journal entries.

Management's Corrective Action Plan – The Village has begun the process of creating a formal policy for the preparation, posting and review of journal entries. The Village currently utilizes facets of an appropriate journal entry review, and will build upon these to create and adopt a formal policy.

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

Finding 2011-2—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 – 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 – 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 are not closely monitored and maintained by the Village.

Recommendation – It is recommended that the Village monitor their capital projects to ensure that any deficits are remedied through adequate funding. Additionally, the Village should enforce a policy that appropriately closes out inactive or completed projects.

Management's Corrective Action Plan – The Village is aggressively reviewing its active and inactive capital projects to ensure that projects are being monitored, maintained and closed out on a timely basis. The Village closed out nineteen inactive capital projects during the fiscal year and appropriate

amounts were returned to the Debt Service Fund to pay off outstanding debt. The Village is also discussing the implementation of a Five (5) Year Capital Plan.

Finding 2011-3—Segregation of Duties

Criteria – Appropriate segregation of duties and internal controls surrounding the cash receipts cycle should be in place.

Condition – There is a lack of segregation of duties regarding the receipt of cash and the recording of deposits. The Village currently rotates duties among employees within the finance department to ensure adequate segregation of duties in its daily operations; however, there is no formal policy that identifies an individual as having responsibility for preparing deposits, performing cash receipt reconciliations, or performing reviews of cash receipt reconciliations.

Effect – The lack of segregation of duties surrounding cash receipts increases the risk of misstatement due to fraud or misappropriation of assets.

Cause – The Village’s Deputy Treasurer position has been vacated, and those duties not formally allocated.

Recommendation – The Village should implement a formal policy in which an individual independent of the cash receipts function will be delegated to prepare deposits and perform reconciliations.

Management’s Corrective Action Plan – Despite the experienced downsizing within the finance department, procedures were in place to ensure the segregation of duties regarding the receipt of cash and the recording of deposits. To assist in the segregation of duties, the employees are rotated regarding preparation of deposits and banking.

Part III. Federal Award Findings and Questioned Costs Section

No findings or questioned costs reported.

VILLAGE OF PORT CHESTER, NY
Schedule of Prior Audit Findings
Year Ended May 31, 2011
(Follow Up of May 31, 2010 Findings)

No findings or questioned costs reported for year ended May 31, 2010.

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