

**VILLAGE OF PORT CHESTER,  
NEW YORK**

*Basic Financial Statements, Required Supplementary  
Information, Supplemental and Federal Financial  
Assistance Schedules for the Year Ended May 31, 2012  
and Independent Auditors' Reports*



**VILLAGE OF PORT CHESTER, NEW YORK**  
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**Year Ended May 31, 2012**

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## FINANCIAL SECTION





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Certified Public Accountants

## **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, 2012, 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 the 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, the financial statements referred to previously 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, 2012, and the respective changes in financial position and the respective budgetary comparison 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 September 19, 2012, 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.

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

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 financial statements and schedules listed in the foregoing table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of the Village's management, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and supplemental schedules and the accompanying schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

 Drexler & Malin LLP

September 19, 2012

(August 20, 2012 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, 2012**

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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, 2012. 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, 2011 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 \$3,012,145. Of this amount, \$13,193,670 represents the Village's investment in capital assets net of related debt. Additionally, at May 31, 2012 the Village considers \$2,637,633 as restricted net assets and recognizes a deficit balance of \$12,819,158 within its unrestricted classification.
- ◆ The Village's total primary government net assets decreased \$2,282,659 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 \$10,270,470, a decrease of \$844,124 in comparison with the prior year. This decrease is primarily due to Capital Projects and Debt Service Funds expenditures and other financing uses exceeding revenues and financing sources.
- ◆ The General Fund reported a net increase in fund balance this year of \$264,249. At May 31, 2012, unassigned fund balance for the General Fund was \$4,827,309, or approximately 14.1 percent of total General Fund expenditures.
- ◆ During the year ended May 31, 2012, the Village issued refunding debt in the amount of \$9,380,000. Considering the refunding and payments made on the debt outstanding, the Village's total bonded indebtedness decreased by \$1,906,000.

**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 10-11 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 four individual governmental funds: the General Fund, the Capital Projects Fund, 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 and the Capital Projects Fund. 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 12-16 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 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-36 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 \$3,012,145 at the close of the May 31, 2012 fiscal year, as compared to assets exceeding liabilities by \$5,294,804 at May 31, 2011.

**Table 1—Condensed Statement of Net Assets (Deficit)-Primary Government—May 31, 2012**

	May 31,	
	2012	2011
Current assets	\$ 14,812,049	\$ 17,317,122
Capital assets	<u>43,775,139</u>	<u>43,892,768</u>
Total assets	<u>58,587,188</u>	<u>61,209,890</u>
Current liabilities	4,853,079	6,494,730
Non-current liabilities	<u>50,721,964</u>	<u>49,420,356</u>
Total liabilities	<u>55,575,043</u>	<u>55,915,086</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	13,193,670	13,222,208
Restricted	2,637,633	3,179,292
Unrestricted	<u>(12,819,158)</u>	<u>(11,106,696)</u>
Total net assets	<u>\$ 3,012,145</u>	<u>\$ 5,294,804</u>

At May 31, 2012, total assets of the Village are \$58,587,188. The largest portion of total assets is its capital assets, net of accumulated depreciation in the amount of \$43,775,139.

The Village’s liabilities totaled \$55,575,043 at May 31, 2012. The largest portion of the liabilities is bonds payable debt of \$34,335,000.

The Village had favorable current ratios of 3.05 and 2.67 at May 31, 2012 and 2011, respectively. Such a ratio implies that the Village may have sufficient assets on hand to cover its current liabilities that will come due in the coming year. Table 2, as shown below, presents the current ratio for the Village at May 31, 2012 and May 31, 2011.

**Table 2—Current Assets and Current Liabilities—May 31, 2012**

	May 31,	
	2012	2011
Current assets	\$ 14,812,049	\$ 17,317,122
Current liabilities	4,853,079	6,494,730
Ratio of current assets to current liabilities	3.05	2.67

The largest portion, \$13,193,670, 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, \$2,637,633 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 \$12,819,158.

Total net assets decreased by \$2,282,659 from prior year. The decrease can be primarily attributed to a significant declines within capital grants and contributions and decreased tax revenues, while expenses also declined from the year ended May 31, 2011, but not as much as program revenues.

Table 3, as presented below, shows the changes in net assets for the year ended May 31, 2012:

**Table 3—Condensed Statement of Changes in Net Assets-Primary Government—Year Ended May 31, 2012**

	Year Ended May 31,	
	2012	2011
Program revenues:		
Charges for services	\$ 5,893,426	\$ 5,772,874
Operating grants and contributions	283,042	232,305
Capital grants and contributions	894,614	1,074,347
General revenues	<u>28,584,487</u>	<u>29,359,600</u>
Total revenues	35,655,569	36,439,126
Program expenses	<u>37,938,228</u>	<u>38,480,825</u>
Change in net assets	(2,282,659)	(2,041,699)
Net assets—beginning	<u>5,294,804</u>	<u>7,336,503</u>
Net assets—ending	<u>\$ 3,012,145</u>	<u>\$ 5,294,804</u>

Overall revenues decreased by 2.2 percent from 2011, primarily due to a decrease in grants and contributions received, which vary by year based on grants awarded. Additionally, tax revenues declined from prior year as result to a tax levy decrease for the year ended May 31, 2012. Overall expenditures decreased by 1.4 percent from the year ended May 31, 2011 to the year ended May 31, 2012. A primary contributor to the decrease is a decrease in transportation related to the mild winter the Village experienced, saving on salt and overtime expenses.

A summary of sources of revenues for the years ended May 31, 2012 and May 31, 2011 is presented below in Table 4:

**Table 4—Summary of Sources of Revenues-Primary Government**

	May 31,		Increase/(Decrease)	
	2012	2011	Dollars	Percent
Charges for services	\$ 5,893,426	\$ 5,772,874	\$ 120,552	2.1%
Operating and capital grants and contributions	1,177,656	1,306,652	(128,996)	-9.9%
Taxes	27,468,745	28,295,479	(826,734)	-2.9%
Use of money and property	16,552	35,737	(19,185)	-53.7%
State aid	628,837	579,732	49,105	8.5%
Other	470,353	448,652	21,701	4.8%
Total revenues	<u>\$ 35,655,569</u>	<u>\$ 36,439,126</u>	<u>\$ (783,557)</u>	-2.2%

The most significant source of revenues is taxes, which account for \$27,468,745, or 77.0 percent of total revenues for the year ended May 31, 2012 and \$28,295,479, or 77.7 percent of total revenues for the year ended May 31, 2011. The next largest source of revenue is charges for services, which accounts for \$5,893,426, or 16.5 percent of total revenues, for the year ended May 31, 2012 and \$5,772,874, or 15.8 percent of total revenues for the year ended May 31, 2011.

A summary of program expenses for the years ended May 31, 2012 and May 31, 2011 is presented below:

**Table 5—Summary of Sources of Expenses**

	May 31,		Increase/(Decrease)	
	2012	2011	Dollars	Percent
General government support	\$ 8,296,129	\$ 8,849,947	\$ (553,818)	-6.3%
Public safety	17,272,082	16,274,298	997,784	6.1%
Health	404,677	387,381	17,296	4.5%
Transportation	2,678,547	3,333,746	(655,199)	-19.7%
Economic opportunity and development	589,936	602,981	(13,045)	-2.2%
Culture and recreation	3,303,851	3,753,005	(449,154)	-12.0%
Home and community services	3,555,171	3,579,118	(23,947)	-0.7%
Interest and other expenses	1,837,835	1,700,349	137,486	8.1%
Total program expenses	<u>\$ 37,938,228</u>	<u>\$ 38,480,825</u>	<u>\$ (542,597)</u>	-1.4%

The Village's significant expense items for the year ended May 31, 2012 were public safety of \$17,272,082, or 45.5 percent of total expenses, general government support of \$8,296,129, or 21.9 percent of total expenses, and home and community services of \$3,555,171, or 9.4 percent of total expenses. 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.

### **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, *unassigned* and *assigned fund balances* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$10,270,470, a decrease of \$844,124 in comparison with the prior year. *Unassigned fund balance* is \$4,827,309 or approximately 13.2 percent of total governmental expenditures. Additionally, the Village's *assigned fund balances* total \$865,000. Together, *unassigned* and *assigned fund balance* represents \$5,692,309 or 15.6 percent of total governmental expenditures. *Nonspendable* amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. *Nonspendable fund balance* consists of \$729,432 for prepaid items. *Restricted* amounts are constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. *Restricted fund balance* totals \$3,295,784 at May 31, 2012, restricted for workers' compensation, liability claims, and fund balances maintained in the Special Purposes, Capital Projects and Debt Service Funds. *Committed* amounts are subject to a purpose constraint imposed by formal action of the Village's highest level of decision-making authority. *Committed fund balance* is comprised of \$468,005 for future debt service payments and \$84,940 for encumbrances at May 31, 2012.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,827,309, while total fund balance was \$8,977,355. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 13.9 percent of General Fund expenditures and transfers out, while total fund balance represents 25.9 percent of that same amount.

During the year end May 31, 2012, there was a \$38,809 net increase in appropriations between the original and final amended General Fund budget.

During the year ended May 31, 2012, the Village's Capital Projects Fund fund balance decreased \$566,714 from prior year. Capital Projects Fund reported \$658,151 of restricted fund balance.



## Capital Asset and Debt Administration

**Capital assets.** The Village's investment in capital assets for its governmental activities as of May 31, 2012, amounted to \$43,775,139 (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, 2012 and May 31, 2011 are presented below.

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

	May 31,	
	2012	2011
Land	\$ 606,100	\$ 606,100
Construction in progress	2,635,570	6,076,093
Land improvements	4,179,777	3,748,813
Building and improvements	16,039,493	16,322,046
Infrastructure	16,630,044	13,367,458
Machinery and equipment	3,684,155	3,772,258
Total	<u>\$ 43,775,139</u>	<u>\$ 43,892,768</u>

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

**Long-term debt.** At May 31, 2012, the Village had total bonded debt outstanding of \$34,335,000, as compared to \$36,241,000 in the prior year.

The Village issued refunding debt in the amount of \$9,380,000 during the fiscal year. Additional information on the Village's long-term debt can be found in Note 9 of this report.

## Economic Factors

The unemployment rate for the Village of Port Chester, New York at May 2012 was 6.0 percent, which is a slight increase from 5.9 percent a year ago. This compares favorably to New York State's average unemployment rate of 8.6 percent and is also favorable compared to the national average rate of 8.2 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.

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# BASIC FINANCIAL STATEMENTS



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**VILLAGE OF PORT CHESTER, NEW YORK**  
**Statement of Net Assets (Deficit)**  
**May 31, 2012**

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Industrial Development Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,115,546	\$ 319,400
Restricted cash and cash equivalents	5,723,866	-
Accounts receivable	518,264	-
Due from other governments	1,692,145	-
Internal balances	32,796	-
Prepaid items	729,432	12,000
Capital assets not being depreciated	3,241,670	-
Capital assets being depreciated (net of accumulated depreciation)	40,533,469	-
Total assets	58,587,188	331,400
<b>LIABILITIES</b>		
Accounts payable	972,786	9,118
Accrued liabilities	689,634	-
Retainage payable	95,866	-
Due to retirement system	511,433	-
Unearned revenue	983,360	-
Bond anticipation notes payable	1,600,000	-
Non-current liabilities:		
Due within one year	2,650,348	-
Due within more than one year	48,071,616	-
Total liabilities	55,575,043	9,118
<b>NET ASSETS (DEFICIT):</b>		
Investment in capital assets, net of related debt	13,193,670	-
Restricted	2,637,633	-
Unrestricted	(12,819,158)	322,282
Total net assets	\$ 3,012,145	\$ 322,282

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, 2012**

<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</u>	<u>Component</u>
					<u>Governmental</u>	<u>Unit</u>
					<u>Industrial Development Agency</u>	
<b>Primary Government:</b>						
General government support	\$ 8,296,129	\$ 1,450,889	\$ 35,000	\$ -	\$ (6,810,240)	\$ -
Public safety	17,272,082	3,431,073	20,192	-	(13,820,817)	-
Health	404,677	19,895	-	-	(384,782)	-
Transportation	2,678,547	36,782	-	170,037	(2,471,728)	-
Economic opportunity and development	589,936	-	-	281,727	(308,209)	-
Culture and recreation	3,303,851	388,447	2,000	-	(2,913,404)	-
Home and community services	3,555,171	566,340	225,850	442,850	(2,320,131)	-
Interest and other fiscal charges	1,837,835	-	-	-	(1,837,835)	-
Total primary government	<u>\$ 37,938,228</u>	<u>\$ 5,893,426</u>	<u>\$ 283,042</u>	<u>\$ 894,614</u>	<u>(30,867,146)</u>	<u>-</u>
<b>Component Unit:</b>						
Industrial Development Agency	<u>\$ 189,066</u>	<u>\$ 273,774</u>	<u>\$ -</u>	<u>\$ -</u>		<u>84,708</u>
General revenues:						
Taxes					27,468,745	-
Use of money and property					16,552	303
State aid					628,837	-
Miscellaneous					470,353	-
Total general revenues					<u>28,584,487</u>	<u>303</u>
Change in net assets					(2,282,659)	85,011
Net assets—beginning					5,294,804	237,271
Net assets—ending					<u>\$ 3,012,145</u>	<u>\$ 322,282</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, 2012**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,115,546	\$ -	\$ -	\$ 6,115,546
Restricted cash and cash equivalents	2,002,669	3,086,485	634,712	5,723,866
Accounts receivable	509,361	8,903	-	518,264
Due from other funds	2,796	45,000	252	48,048
Due from other governments	1,541,766	150,379	-	1,692,145
Prepaid items	729,432	-	-	729,432
Total assets	<u>\$10,901,570</u>	<u>\$ 3,290,767</u>	<u>\$ 634,964</u>	<u>\$14,827,301</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 698,429	\$ 274,357	\$ -	\$ 972,786
Accrued liabilities	378,134	-	-	378,134
Due to other funds	15,000	252	-	15,252
Retainage payable	-	95,866	-	95,866
Due to retirement system	511,433	-	-	511,433
Deferred revenue	321,219	662,141	-	983,360
Bond anticipation notes payable	-	1,600,000	-	1,600,000
Total liabilities	<u>1,924,215</u>	<u>2,632,616</u>	<u>-</u>	<u>4,556,831</u>
Fund balances:				
Nonspendable	729,432	-	-	729,432
Restricted	2,002,669	658,151	634,964	3,295,784
Committed	552,945	-	-	552,945
Assigned	865,000	-	-	865,000
Unassigned	4,827,309	-	-	4,827,309
Total fund balances	<u>8,977,355</u>	<u>658,151</u>	<u>634,964</u>	<u>10,270,470</u>
Total liabilities and fund balances	<u>\$10,901,570</u>	<u>\$ 3,290,767</u>	<u>\$ 634,964</u>	<u>\$14,827,301</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 (Deficit)**  
**May 31, 2012**

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

Fund balances—total governmental funds		\$ 10,270,470
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$64,239,625 and the accumulated depreciation is \$20,464,486.		43,775,139
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is \$311,500 at year end.		(311,500)
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	\$ (34,335,000)	
Compensated absences	(4,369,045)	
Judgments and claims	(1,837,919)	
OPEB liability	<u>(10,180,000)</u>	<u>(50,721,964)</u>
Net assets of governmental activities		<u>\$ 3,012,145</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, 2012**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$21,988,646	\$ -	\$ -	\$21,988,646
Other tax items	817,666	-	-	817,666
Non-property tax items	4,662,433	-	-	4,662,433
Departmental income	3,114,971	-	-	3,114,971
Use of money and property	338,351	-	3,592	341,943
Licenses and permits	268,635	-	-	268,635
Fines and forfeitures	2,182,689	-	-	2,182,689
Miscellaneous	99,132	373,345	84,924	557,401
State aid	725,197	221,537	-	946,734
Federal aid	101,374	673,077	-	774,451
Total revenues	<u>34,299,094</u>	<u>1,267,959</u>	<u>88,516</u>	<u>35,655,569</u>
<b>EXPENDITURES</b>				
Current:				
General government support	5,050,872	-	-	5,050,872
Public safety	10,743,178	-	-	10,743,178
Health	261,723	-	-	261,723
Transportation	1,295,799	-	-	1,295,799
Economic opportunity and development	367,206	-	-	367,206
Culture and recreation	1,935,666	-	36,795	1,972,461
Home and community services	2,167,264	-	-	2,167,264
Employee benefits	8,652,064	-	-	8,652,064
Capital outlay	-	2,264,589	-	2,264,589
Debt service:				
Principal	2,316,000	-	-	2,316,000
Interest	1,415,157	-	-	1,415,157
Total expenditures	<u>34,204,929</u>	<u>2,264,589</u>	<u>36,795</u>	<u>36,506,313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>94,165</u>	<u>(996,630)</u>	<u>51,721</u>	<u>(850,744)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	600,564	430,480	-	1,031,044
Transfers out	(430,480)	(564)	(600,000)	(1,031,044)
Proceeds of advanced refunding bond issuance	-	-	9,380,000	9,380,000
Premium on advanced refunding bond, net of issuance costs	-	-	6,945	6,945
Payments to escrow for advanced refunding	-	-	(9,380,325)	(9,380,325)
Total other financing sources (uses)	<u>170,084</u>	<u>429,916</u>	<u>(593,380)</u>	<u>6,620</u>
Net change in fund balances	264,249	(566,714)	(541,659)	(844,124)
Fund balances—beginning	<u>8,713,106</u>	<u>1,224,865</u>	<u>1,176,623</u>	<u>11,114,594</u>
Fund balances—ending	<u>\$ 8,977,355</u>	<u>\$ 658,151</u>	<u>\$ 634,964</u>	<u>\$ 10,270,470</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 Funds to the Statement of Activities**  
**Year Ended May 31, 2012**

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

Net change in fund balances—total governmental funds \$ (844,124)

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 depreciation exceeded capital outlay in the current period.

Net capital asset additions, deletions and reclassifications	\$ 2,149,477	
Depreciation expense	<u>(2,267,106)</u>	(117,629)

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	\$ 2,316,000	
Refunded debt	8,970,000	
Issuance of advanced refunding bonds	(9,380,000)	
Change in accrued interest	<u>(19,298)</u>	1,886,702

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	\$ (207,088)	
OPEB liability	(3,080,000)	
Judgments and claims	<u>79,480</u>	<u>(3,207,608)</u>

Change in net assets of governmental activities \$ (2,282,659)

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, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property taxes	\$ 21,958,225	\$ 21,958,225	\$ 21,988,646	\$ 30,421
Other tax items	740,262	740,262	817,666	77,404
Non-property tax items	4,199,000	4,199,000	4,662,433	463,433
Departmental income	2,958,821	2,958,821	3,114,971	156,150
Use of money and property	411,700	411,700	338,351	(73,349)
Licenses and permits	154,630	154,630	268,635	114,005
Fines and forfeitures	2,019,000	2,043,010	2,182,689	139,679
Miscellaneous	76,000	81,000	99,132	18,132
State aid	616,569	616,569	725,197	108,628
Federal aid	107,360	117,159	101,374	(15,785)
Total revenues	<u>33,241,567</u>	<u>33,280,376</u>	<u>34,299,094</u>	<u>1,018,718</u>
<b>EXPENDITURES</b>				
Current:				
General government support	5,277,166	5,161,448	5,050,872	110,576
Public safety	10,563,255	10,793,612	10,743,178	50,434
Health	275,834	261,723	261,723	-
Transportation	1,531,750	1,302,953	1,295,799	7,154
Economic opportunity and development	412,393	371,840	367,206	4,634
Culture and recreation	2,016,864	1,968,037	1,935,666	32,371
Home and community services	2,285,216	2,172,086	2,167,264	4,822
Employee benefits	8,713,731	9,050,879	8,652,064	398,815
Debt service:				
Principal	2,716,000	2,316,000	2,316,000	-
Interest	1,413,198	1,415,158	1,415,157	1
Total expenditures	<u>35,205,407</u>	<u>34,813,736</u>	<u>34,204,929</u>	<u>608,807</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,963,840)</u>	<u>(1,533,360)</u>	<u>94,165</u>	<u>1,627,525</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	800,000	800,000	600,564	(199,436)
Transfers out	-	(430,480)	(430,480)	-
Total other financing sources (uses)	<u>800,000</u>	<u>369,520</u>	<u>170,084</u>	<u>(199,436)</u>
Net change in fund balances	(1,163,840)	(1,163,840)	264,249	1,428,089
Fund balances—beginning	<u>8,713,106</u>	<u>8,713,106</u>	<u>8,713,106</u>	<u>-</u>
Fund balances—ending	<u>\$ 7,549,266</u>	<u>\$ 7,549,266</u>	<u>\$ 8,977,355</u>	<u>\$ 1,428,089</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—Agency Fund**  
**May 31, 2012**

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,247,533
Total assets	<u>1,247,533</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Temporary withholding liabilities	1,214,737
Due to other funds	<u>32,796</u>
Total liabilities	<u>1,247,533</u>
Net assets	<u>\$ -</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, 2012**

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**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.

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.

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 assigns 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 commitments 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.

**Restricted Cash and Cash Equivalents**—Unspent proceeds from debt are reported as restricted cash and cash equivalents within the Village’s Capital Projects Fund. The proceeds of debt can only be used for the stated purpose of the borrowing. The Village also reports restricted cash within its General Fund, Special Purpose Fund and Debt Service Fund, which represents amounts with constraints placed on their use by either external parties and/or statute.

**Investments**—The Village has no investments at May 31, 2012; however, it is the Village’s policy to state investments at fair value when applicable.

**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.

**Adoption of New Accounting Pronouncements**—During the year ended May 31, 2012, the Village adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Village to change its fund balance classifications for governmental funds. The new classifications are explained as follows:

*Nonspendable fund balance*—Amounts that are not in a spendable form (such as inventory or prepaids) or are required to be maintained intact (such as the corpus of an endowment fund).

*Restricted fund balance*—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

*Committed fund balance*—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (Village Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

*Assigned fund balance*—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body (Treasurer) to which the governing body delegates the authority.

*Unassigned fund balance*—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended May 31, 2012, the Village adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*. GASB Statement No. 59 did not have a material impact on the Village’s financial position or results from operations.

***Future Impacts of Accounting Pronouncements*** — The Village has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 5*, effective May 31, 2013; and No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; No. 65, *Items Previously Reported As Assets and Liabilities*; and No. 66, *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, effective May 31, 2014; and No. 67, *Financial Reporting for Pension Plans*, effective May 31, 2015; and No. 68, *Accounting and Financial Reporting for Pensions*, effective May 31, 2016. The Village is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63, 64, 65, 66, 67 and 68 will have on its financial position and results of operations when such statements are adopted.

## **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 1<sup>st</sup>. This budget includes the proposed expenditures and means of financing.
2. The Board of Trustees, on or before March 31<sup>st</sup>, 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 15<sup>th</sup>.
4. After the public hearing and on or before May 1<sup>st</sup>, 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>11,838,262</u>	<u>1,247,533</u>	<u>13,085,795</u>
Total	<u>\$ 11,839,412</u>	<u>\$ 1,247,533</u>	<u>\$ 13,086,945</u>
Cash and cash equivalents		\$ 6,115,546	
Restricted cash and cash equivalents		5,723,866	
Cash held in Agency Fund		<u>1,247,533</u>	
Total		<u>\$ 13,086,945</u>	

**Deposits**—All deposits are carried at fair value.

The following is a summary of deposits:

	Bank Balance	Carrying Balance
FDIC Insured	\$ 8,932,759	\$ 8,069,552
Uninsured:		
Collateral held by bank's agent in the Village's name	<u>5,016,484</u>	<u>5,016,243</u>
	<u>\$ 13,949,243</u>	<u>\$ 13,085,795</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, 2012, 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.

Restricted cash of \$3,086,485 is reported within the Capital Projects Fund for amounts representing nonoperating cash that has been raised through borrowings. The use of these proceeds is limited to the specific purpose of the issue. Additionally, the Village reports \$2,002,669, \$70,072 and \$564,640 in the General Fund, Special Purpose Fund and Debt Service Fund, respectively, which represent amounts with constraints placed on their use by either external parties and/or statute.

**Investments**—The Village reported no investments at May 31, 2012.

**Port Chester Industrial Development Agency**

The Agency’s investment policies are governed by New York State statutes. There were no investments at May 31, 2012. All deposits are carried at fair value.

Cash and cash equivalents:

	May 31, 2012	
	Carrying Amount	Bank Balance
FDIC Insured	\$ 319,400	\$ 319,400

**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 2011-2012 was \$60,627,390, which exceeded the actual levy by \$38,669,165.

**5. RECEIVABLES**

**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, 2012 are:

General Fund:		
Village Court	\$ 180,309	
Utility taxes	77,996	
Franchise fees	50,374	
Miscellaneous	200,682	\$ 509,361
Capital Projects Fund:		8,903
Total		\$ 518,264

**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, 2012 are:

General Fund:			
Westchester County:			
Taxes receivable		\$ 1,486,190	
Other		<u>55,576</u>	\$ 1,541,766
Capital Projects Fund:			
Various grants		138,879	
New York State:			
Department of Transportation		<u>11,500</u>	<u>150,379</u>
Total			<u>\$ 1,692,145</u>

## 6. INTERFUNDS

Interfund receivables and payables of the Village at May 31, 2012 consisted of the following:

	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 2,796	\$ 15,000
Capital Projects Fund	45,000	252
Debt Service Fund	252	-
Fiduciary Fund	<u>-</u>	<u>32,796</u>
Total	<u>\$ 48,048</u>	<u>\$ 48,048</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, 2012:

	Transfers out:			
	General Fund	Capital Projects Fund	Debt Service Fund	Total
Transfers in:				
General Fund	\$ -	\$ 564	\$ 600,000	\$ 600,564
Capital Projects Fund	<u>430,480</u>	<u>-</u>	<u>-</u>	<u>430,480</u>
	<u>\$ 430,480</u>	<u>\$ 564</u>	<u>\$ 600,000</u>	<u>\$ 1,031,044</u>

Transfers are used primarily to move funds from the Debt Service Fund to the General Fund for the payment on the Village's bonded debt. 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, 2012 was as follows:

	Balance June 1, 2011	Reclassifications and Additions	Deletions	Balance May 31, 2012
Capital assets, not being depreciated:				
Land	\$ 606,100	\$ -	\$ -	\$ 606,100
Construction in progress	<u>6,076,093</u>	<u>2,086,390</u>	<u>5,526,913</u>	<u>2,635,570</u>
Total capital assets, not being depreciated	<u>6,682,193</u>	<u>2,086,390</u>	<u>5,526,913</u>	<u>3,241,670</u>
Capital assets, being depreciated:				
Land improvements	5,000,534	660,037	-	5,660,571
Building and improvements	19,751,180	284,748	-	20,035,928
Infrastructure	17,675,924	3,954,877	-	21,630,801
Machinery and equipment	<u>12,980,317</u>	<u>690,338</u>	<u>-</u>	<u>13,670,655</u>
Total capital assets, being depreciated	<u>55,407,955</u>	<u>5,590,000</u>	<u>-</u>	<u>60,997,955</u>
Less accumulated depreciation for:				
Land improvements	(1,251,721)	(229,073)	-	(1,480,794)
Building and improvements	(3,429,134)	(567,301)	-	(3,996,435)
Infrastructure	(4,308,466)	(692,291)	-	(5,000,757)
Machinery and equipment	<u>(9,208,059)</u>	<u>(778,441)</u>	<u>-</u>	<u>(9,986,500)</u>
Total accumulated depreciation	<u>(18,197,380)</u>	<u>(2,267,106)</u>	<u>-</u>	<u>(20,464,486)</u>
Total capital assets, being depreciated, net	<u>37,210,575</u>	<u>3,322,894</u>	<u>-</u>	<u>40,533,469</u>
Governmental activities capital assets, net	<u>\$ 43,892,768</u>	<u>\$ 5,409,284</u>	<u>\$ 5,526,913</u>	<u>\$ 43,775,139</u>

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

Governmental activities:	
General government support	\$ 434,759
Public safety	671,838
Transportation	680,856
Economic opportunity and development	22,161
Culture and recreation	254,029
Home and community service	<u>203,463</u>
Total depreciation expense	<u>\$ 2,267,106</u>



## 8. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the capital projects fund. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

A summary of short-term debt for the Village follows:

Description	Interest Rate	Balance		Payments	Balance
		June 1, 2011	Additions		May 31, 2012
Bond Anticipation Note	1.00%	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
Bond Anticipation Note	0.54%	-	1,600,000	-	1,600,000
		<u>\$ 2,000,000</u>	<u>\$ 1,600,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,600,000</u>

## 9. 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 Refundings**—During the current year, the Village issued \$6,975,000 in tax exempt Refunding Serial Bonds, Series 2012A (“2012A Bonds”), which collectively refund \$4,355,000 and \$2,420,000 of the previously issued 2002A and 2003A bonds, respectively, originally issued for various purposes. The interest on the 2012A Bonds ranges from 2.0% to 3.0%. The payment to escrow agent totaled \$7,002,580 and reoffering premium (net of issuance costs and underwriter’s discounts) were \$27,580. The net proceeds (after payment of the underwriting fee and other costs of issuance) 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 the principal of, interest on and applicable redemption premium of the refunded bonds on their date of redemption. As a result, \$4,355,000 and \$2,420,000 of the original 2002A and 2003A bonds, respectively, are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2012A Bonds refinancing totaled \$6,775,000, has been removed from the financial statements. The 2012A refinancing resulted in cash flow savings of \$711,244 and an estimated economic gain of \$715,373.

Additionally during the current year, the Village issued \$2,405,000 in taxable Refunding Serial Bonds, Series 2012B (“2012B Bonds”), which collectively refund \$2,195,000 of the previously issued 2003B bonds, originally issued for various purposes. The interest on the 2012B Bonds ranges from 2.0% to 3.3%. The payment to escrow agent totaled \$2,377,745 and issuance costs (net of reoffering premium and underwriter’s discounts) were \$27,255. The net proceeds (after payment of the underwriting fee and other costs of issuance) 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 the principal of, interest on and applicable redemption premium of the refunded bonds on their date of redemption. As a result, \$2,195,000 of the original 2003B bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2012B Bonds refinancing totaled \$2,195,000, has been removed from the financial statements. The 2012B refinancing resulted in cash flow savings of \$250,613 and an estimated economic gain of \$252,609.

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, 2012 is shown below:

	Interest Rate	Maturity	Balance June 1, 2011	Additions	Deletions	Balance May 31, 2012
General Fund:						
Serial Bond Issue	5.10%	1996-2011	\$ 165,000	\$ -	\$ 165,000	\$ -
Serial Bond Issue	4.10%	2002-2022	5,030,000	-	4,685,000	345,000
Serial Bond Issue	4.02%	2003-2024	2,905,000	-	2,575,000	330,000
Serial Bond Issue	5.70%	2003-2024	2,605,000	-	2,325,000	280,000
Serial Bond Issue	3.83%	2004-2021	2,800,000	-	205,000	2,595,000
Serial Bond Issue	3.96%	2005-2025	4,345,000	-	210,000	4,135,000
Serial Bond Issue	4.00%	2006-2026	2,725,000	-	120,000	2,605,000
Serial Bond Issue	3.75%	2007-2024	5,815,000	-	310,000	5,505,000
Serial Bond Issue	4.25%	2008-2028	2,255,000	-	95,000	2,160,000
Brody Settled Claim	2.50%	2009-2015	400,000	-	100,000	300,000
Serial Bond Issue	3.49%	2009-2026	3,756,000	-	196,000	3,560,000
Refunding Bond Issue	3.00%	2011-2021	3,440,000	-	300,000	3,140,000
Refunding Bond Issue	2.00-3.00%	2012-2025	-	6,975,000	-	6,975,000
Refunding Bond Issue	2.00-3.30%	2012-2025	-	2,405,000	-	2,405,000
Total General Fund			<u>\$ 36,241,000</u>	<u>\$ 9,380,000</u>	<u>\$ 11,286,000</u>	<u>\$ 34,335,000</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 \$4,369,045 has been recorded, of which management estimates that \$218,452 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 for the past two years is as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Balance at June 1, 2011	\$ 1,602,950	\$ 314,449	\$ 1,917,399
Provision for claims and claims adjustments expenses	1,541,933	197,674	1,739,607
Claims and claims adjustment expenses paid	<u>(1,612,890)</u>	<u>(206,197)</u>	<u>(1,819,087)</u>
Balance at May 31, 2012	<u>\$ 1,531,993</u>	<u>\$ 305,926</u>	<u>\$ 1,837,919</u>

	<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>

**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, 2012 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>
2013	\$ 2,340,000	\$ 218,452	\$ 91,896	\$ -	\$ 2,650,348
2014	2,430,000	-	-	-	2,430,000
2015	2,510,000	-	-	-	2,510,000
2016	2,500,000	-	-	-	2,500,000
2017	2,580,000	-	-	-	2,580,000
2018-2022	13,830,000	-	-	-	13,830,000
2023-2027	7,965,000	-	-	-	7,965,000
Beyond	180,000	4,150,593	1,746,023	10,180,000	16,256,616
Total	<u>\$ 34,335,000</u>	<u>\$ 4,369,045</u>	<u>\$ 1,837,919</u>	<u>\$ 10,180,000</u>	<u>\$ 50,721,964</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, 2012:

	Balance June 1, 2011	Additions	Deletions	Balance May 31, 2012	Due Within One Year
Bonds payable	\$ 36,241,000	\$ 9,380,000	\$ 11,286,000	\$ 34,335,000	\$ 2,340,000
Compensated absences	4,161,957	1,572,374	1,365,286	4,369,045	218,452
OPEB liability	7,100,000	4,840,000	1,760,000	10,180,000	-
Judgements and claims	1,917,399	1,739,607	1,819,087	1,837,919	91,896
Total	<u>\$ 49,420,356</u>	<u>\$ 17,531,981</u>	<u>\$ 16,230,373</u>	<u>\$ 50,721,964</u>	<u>\$ 2,650,348</u>

## 10. 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 for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement Systems fiscal year ending March 31.

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

	ERS	PFRS
2012	\$ 695,379	\$ 1,545,170
2011	633,122	1,302,688
2010	415,940	1,199,314

The Village contributions made to the System were equal to 100 percent of the contributions required for each year.

## 11. 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, 2012.

**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.

	2012	2011
Annual required contribution	\$ 4,935,000	\$ 4,720,000
Interest on net OPEB obligation	320,000	180,000
Adjustment to annual required contribution	<u>(415,000)</u>	<u>(230,000)</u>
Annual OPEB costs (expense)	4,840,000	4,670,000
Contributions made	<u>(1,760,000)</u>	<u>(1,600,000)</u>
Increase in net OPEB obligation	3,080,000	3,070,000
Net OPEB obligation - beginning of year	<u>7,100,000</u>	<u>4,030,000</u>
Net OPEB obligation - end of year	<u><u>\$ 10,180,000</u></u>	<u><u>\$ 7,100,000</u></u>

As of June 1, 2011, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$55,870,000.

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, 2012, 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.

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, 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
As of June 1, 2011	-	55,870,000	55,870,000	0%	15,140,000	3.69

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

Year Ended May 31,	Annual OPEB Cost	Contributions Made	Percentage Contributed
2010	\$ 3,480,000	\$ 1,400,000	40%
2011	4,670,000	1,600,000	34%
2012	4,840,000	1,760,000	36%

**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, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of June 1, 2011 and measurement date of May 31, 2012. 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, 2012 was twenty-six years.

## 12. 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, 2012:

	Balance June 1, 2011	Additions	Deletions	Balance May 31, 2012
<b>ASSETS</b>				
Cash	\$ 1,327,005	\$ 18,207,198	\$ 18,286,670	\$ 1,247,533
Total assets	<u>\$ 1,327,005</u>	<u>\$ 18,207,198</u>	<u>\$ 18,286,670</u>	<u>\$ 1,247,533</u>
 <b>LIABILITIES</b>				
Temporary withholdings liabilities	\$ 1,324,810	\$ 17,857,635	\$ 17,967,708	\$ 1,214,737
Accounts payable	-	1,497,268	1,497,268	-
Due to other funds	2,195	17,472,799	17,442,198	32,796
Total liabilities	<u>\$ 1,327,005</u>	<u>\$ 36,827,702</u>	<u>\$ 36,907,174</u>	<u>\$ 1,247,533</u>

## 13. LABOR RELATIONS

Village employees are represented by four bargaining units with the balance governed by Village Board rules and regulations. The Port Chester Police Association has a contract settled through May 31, 2013. The CSEA Civil Service, Port Chester Professional Fire Fighters Association and the CSEA Supervisory Unit have unsettled contracts and are in negotiations as of May 31, 2012.

## 14. NET ASSETS AND FUND BALANCE

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	\$ 43,775,139
Related debt:	
Serial bonds:	
Total serial bonds issued for capital assets	(30,920,100)
Total bond anticipation notes issued for capital assets	(1,600,000)
Unspent debt proceeds reserved in capital projects	<u>1,938,631</u>
Net serial bonds issued for capital assets	<u>(30,581,469)</u>
Investment in capital assets, net of related debt	<u>\$ 13,193,670</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	70,072
Debt service	<u>564,892</u>
Restricted Net Assets	<u>\$ 2,637,633</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, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the Village at May 31, 2012 includes:

- ◆ **Prepaid Expenses**—Represents amounts, \$729,432, prepaid to the New York State retirement system and the Village's workers' compensation administrator that are applicable to future accounting periods.

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

Restrictions of the Village at May 31, 2012 include:

Restricted for:	
Workers' compensation payments	\$ 1,888,382
Liability claims	114,287
Special purposes	70,072
Capital projects	658,151
Debt service	<u>564,892</u>
Total	<u>\$ 3,295,784</u>

- ◆ **Workers' Compensation Payments**—Represents funds provided, pursuant to General Municipal Law, to fund the Village's payments for its self-insured workers' compensation program.
- ◆ **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.
- ◆ **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.
- ◆ **Capital Projects**—Represents funds that have been reserved to fund future capital projects.
- ◆ **Debt Service**—Represents amounts within Debt Service Fund set aside for future payments on the Village's indebtedness.



Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the Village's highest level of decision-making authority. As of May 31, 2012, the Village reported the following commitment:

- ◆ ***Committed for Debt Service***—Represents amounts (\$468,005) within the General Fund set aside for future payments on the Village's indebtedness.
- ◆ ***Committed for Encumbrances***—Represents amounts (\$84,940) in the General Fund which have been committed through purchase orders or contracts. The Village reported no significant encumbrances in the General Fund at May 31, 2012.

The Village Board authorizes the Village Manager to make a determination of the assigned amounts of fund balance. Assigned funds represent amounts intended to be used for a specific purpose. For example the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. In the fund financial statements, assignments by the Village at May 31, 2012 include:

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

If the Village must use funds for emergency expenditures the Village Board shall authorize the Village Manager to expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the Village will use unassigned fund balance.

## **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 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.

## **16. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 19, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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COMBINING FINANCIAL STATEMENTS  
AND SCHEDULES



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**VILLAGE OF PORT CHESTER, NEW YORK**  
**Combining Balance Sheet—Nonmajor Governmental Funds**  
**May 31, 2012**

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	Special Purpose Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Restricted cash and cash equivalents	\$ 70,072	\$ 564,640	\$ 634,712
Due from other funds	-	252	252
Total assets	\$ 70,072	\$ 564,892	\$ 634,964
<b>LIABILITIES AND FUND BALANCES</b>			
Fund balances:			
Restricted	\$ 70,072	\$ 564,892	\$ 634,964
Total fund balances	70,072	564,892	634,964
Total liabilities and fund balances	\$ 70,072	\$ 564,892	\$ 634,964

**VILLAGE OF PORT CHESTER, NEW YORK**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—**  
**Nonmajor Governmental Funds**  
**Year Ended May 31, 2012**

	Special Purpose Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Use of money and property	\$ -	\$ 3,592	\$ 3,592
Miscellaneous	<u>46,795</u>	<u>38,129</u>	<u>84,924</u>
Total revenues	<u>46,795</u>	<u>41,721</u>	<u>88,516</u>
<b>EXPENDITURES</b>			
Current:			
Culture and recreation	<u>36,795</u>	<u>-</u>	<u>36,795</u>
Total expenditures	<u>36,795</u>	<u>-</u>	<u>36,795</u>
Excess of revenues over expenditures	<u>10,000</u>	<u>41,721</u>	<u>51,721</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(600,000)	(600,000)
Proceeds of advanced refunding bond issuance	-	9,380,000	9,380,000
Premium on advanced refunding bond issuance, net of costs	-	6,945	6,945
Payments to escrow for advanced refunding	<u>-</u>	<u>(9,380,325)</u>	<u>(9,380,325)</u>
Total other financing sources (uses)	<u>-</u>	<u>(593,380)</u>	<u>(593,380)</u>
Net change in fund balances	10,000	(551,659)	(541,659)
Fund balances—beginning	<u>60,072</u>	<u>1,116,551</u>	<u>1,176,623</u>
Fund balances—ending	<u>\$ 70,072</u>	<u>\$ 564,892</u>	<u>\$ 634,964</u>

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# FEDERAL AWARDS



**VILLAGE OF PORT CHESTER, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2012**

Federal Grantor/Program Title	Federal CFDA Number	Federal Program Expenditures
<b>U.S. Department of Agriculture:</b>		
Passed through Westchester County:		
Supplemental Nutrition Assistance Program	10.551	\$ 3,455
<b>Total U.S. Department of Agriculture</b>		<u>3,455</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Passed through Westchester County:		
Community Development Block Grant/Entitlement Grants	14.218	442,850
Direct programs:		
Community Development Block Grants		
Economic Development Initiative	14.246	<u>230,227</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u>673,077</u>
<b>U.S. Department of Justice—Bureau of Justice Assistance:</b>		
Direct programs:		
Bulletproof Vest Partnership Program	16.607	947
Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810	<u>16,910</u>
<b>Total U.S. Department of Justice—Bureau of Justice Assistance</b>		<u>17,857</u>
<b>U.S. Department of Health and Human Services:</b>		
Passed through Westchester County:		
Special Programs for the Aging—Title III, Part B— Grants for Supportive Services and Senior Centers	93.044	57,101
Special Programs for the Aging—Title III, Part C— Nutrition Services	93.045	<u>22,961</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>80,062</u>
Total expenditures of federal awards		<u>\$ 774,451</u>

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

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**VILLAGE OF PORT CHESTER, NEW YORK**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2012**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Village of Port Chester, New York (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.

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Certified Public Accountants

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

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

We have audited the financial statements of the Village of Port Chester, New York (the "Village"), as of and for the year ended May 31, 2012, and have issued our report thereon dated September 19, 2012 (August 20, 2012 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 opinion 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be significant deficiencies in internal control over financial reporting. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's 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 matter that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Village in a separate letter dated September 19, 2012.

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, 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.

A handwritten signature in black ink that reads "Duesch & Malch LLP". The signature is written in a cursive, flowing style.

September 19, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
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 Village of Port Chester, New York's (the "Village") compliance 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, 2012. The Village's major federal programs are 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 each of its major federal programs is the responsibility of 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 of the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2012.

## Internal Control Over Compliance

Management of the Village is responsible for establishing and maintaining effective internal control over compliance with 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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, 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.



September 19, 2012

**VILLAGE OF PORT CHESTER, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2012**

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**Part I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

**Federal Awards:**

Internal control over major programs:

4. Material weakness(es) identified?  Yes  No
5. Significant deficiency(ies) identified?  Yes  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  No

7. The Village's major program was:

<b>Name of Program</b>	<b>Federal CFDA Number</b>
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  No

## **Part II. FINANCIAL STATEMENT FINDINGS SECTION**

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

### **Finding 2012-1—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* – As in the prior year, 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 in prior years were 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 has aggressively been 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 many 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 continuing its discussion of the implementation of a Five (5) Year Capital Plan.

### **Finding 2012-2—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 an independent review and approval of journal entries.

*Effect* – Lack of oversight and review of journal entries could result in 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 drafted a formal policy for the preparation, posting and review of journal entries in August 2012, and anticipates adopting such policy during the fiscal year. The Village currently utilizes facets of an appropriate journal entry review, and will build upon these to create and adopt a formal policy.

**Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

No items were identified as reportable for the year ended May 31, 2012.

**VILLAGE OF PORT CHESTER, NEW YORK**  
**Schedule of Prior Federal Award Audit Findings**  
**Year Ended May 31, 2012**

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No items were identified as reportable for the year ended May 31, 2011.