# VILLAGE OF PORT CHESTER, NEW YORK

*Basic Financial Statements, Required Supplementary Information and Supplemental and Federal Financial Assistance Schedules for the Year Ended May 31, 2010 and Independent Auditors' Reports*

# VILLAGE OF PORT CHESTER, NEW YORK
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(continued)

# VILLAGE OF PORT CHESTER, NEW YORK
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# FINANCIAL SECTION

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

*Certified Public Accountants*

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate 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, 2010, 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 did not audit the financial statements of the Port Chester Housing Authority, which are shown as a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Port Chester Housing Authority are based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village as of May 31, 2010, and the respective changes in financial position and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Drescher & Malecki LLP

November 18, 2010
(October 28, 2010 as to the Port Chester Housing Authority)

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, 2010. 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, 2009 presentation has been reclassified.

## Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the fiscal year by $7,336,503. Of this amount, $12,915,947 represents the Village's investment in capital assets net of related debt. Additionally, at May 31, 2010 the Village considers $2,979,952 as restricted net assets and recognizes a deficit balance of $8,559,396 within its unrestricted classification.

- The Village's total net assets decreased $1,081,931 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 $13,825,033, a decrease of $53,095 in comparison with the prior year. This decrease is primarily due to the transfer of the Village's Section 8 Housing Assistance program to the County of Westchester, New York.

- The General Fund reported a net increase in fund balance this year of $440,241. At May 31, 2010, unreserved, undesignated fund balance for the General Fund was $5,175,231, or approximately 15.0 percent of total General Fund expenditures.

- The Village issued $4,239,000 of bonds and made principal payments $2,538,000 on its bonded indebtedness during the year ended May 31, 2010.

## 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, transportation, economic opportunity and development, culture and recreation, and home and community services.

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

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village has two kinds of funds: governmental funds and a fiduciary fund.

***Governmental funds***. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance (deficit) provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

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

The Village adopts an annual appropriated budget for the General Fund. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with its budget.

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-43 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, assets exceeded liabilities by $7,336,503 at the close of the year ended May 31, 2010 fiscal year, as compared to assets exceeding liabilities by $8,418,434 at May 31, 2009.

**Table 1—Condensed Statement of Net Assets (Deficit)—May 31, 2010**

| | May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Current assets | $ 18,350,950 | $ 17,826,556 |
| Capital assets | 42,433,090 | 39,969,989 |
| Total assets | 60,784,040 | 57,796,545 |
| Current liabilities | 4,861,654 | 7,829,742 |
| Long-term liabilities | 48,585,883 | 41,548,369 |
| Total liabilities | 53,447,537 | 49,378,111 |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt | 12,915,947 | 12,349,748 |
| Restricted | 2,979,952 | 3,070,877 |
| Unrestricted | (8,559,396) | (7,002,191) |
| Total net assets | $ 7,336,503 | $ 8,418,434 |

At May 31, 2010, total assets of the Village are $60,784,040. The largest portion of total assets is its capital assets, net of accumulated depreciation in the amount of $42,433,090.

The Village's liabilities totaled $53,447,537 at May 31, 2010. The largest portion of the liabilities is bonds payable debt of $38,702,081.

The Village had favorable current ratios of 3.77 and 2.28 at May 31, 2010 and 2009, respectively. Such a ratio implies that the Village may have sufficient assets on hand to cover its liabilities that will come due in the coming year. Table 2, as shown below, presents the current ratio for the Village at May 31, 2010 and May 31, 2009.

**Table 2—Current Assets and Current Liabilities—May 31, 2010**

| | May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Current assets | $18,350,950 | $17,826,556 |
| Current liabilities | 4,861,654 | 7,829,742 |
| Ratio of current assets to current liabilities | 3.77 | 2.28 |

The largest portion, $12,915,947, 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, $2,979,952 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 $8,559,396.

Total net assets decreased by $1,081,931 from prior year. The decrease can be primarily attributed to less revenue from operating grants and contributions, coupled by a steady increase in program expenses from the year ended May 31, 2009.

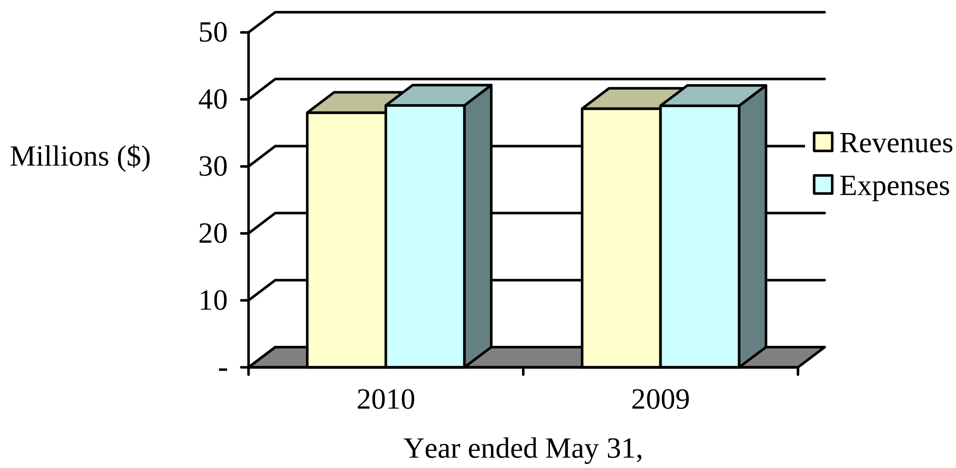
Table 3, as presented below, shows the changes in net assets for the year ended May 31, 2010:

**Table 3—Condensed Statement of Changes in Net Assets—Year Ended May 31, 2010**

| | Year Ended May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Program revenues: | | |
| Charges for services | $ 4,849,905 | $ 5,154,542 |
| Operating grants and contributions | 451,285 | 3,083,125 |
| Capital grants and contributions | 3,566,511 | 1,902,661 |
| General revenues | 29,147,252 | 28,472,192 |
| Total revenues | 38,014,953 | 38,612,520 |
| Program expenses | 39,096,884 | 39,049,429 |
| Change in net assets | (1,081,931) | (436,909) |
| Net assets—beginning | 8,418,434 | 8,855,343 |
| Net assets—ending | $ 7,336,503 | $ 8,418,434 |

As shown below in Figure 1, revenues for the year ended May 31, 2010 decreased 1.5 percent and expenses increased 0.1 percent, from the year ended May 31, 2009.

**Figure 1—Comparison of Revenues and Expenses**




Overall revenues decreased by 1.5 percent from 2009, primarily due to a decrease in operating grants and contributions received, which vary by year based on grants awarded. Additionally, charges for services decreased 5.9 percent from prior year as a result in less revenue from police department fees and fines and forfeitures. Overall expenditures remained consistent from the year ended May 31, 2009 to the year ended May 31, 2010, increasing 0.1%. Sizable variances from the year ended May 31, 2010 in public safety, economic opportunity and development, culture and recreation, and home and community were mainly due to the reclassification of certain allocable expenses.

A summary of sources of revenues for the years ended May 31, 2010 and May 31, 2009 is presented below in Table 4:

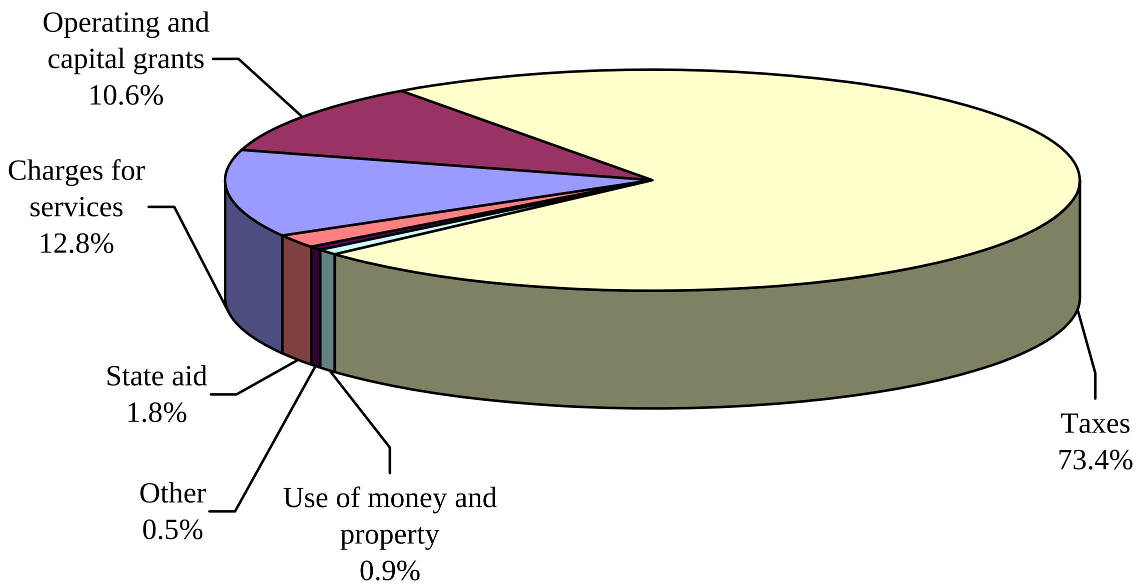
**Table 4—Summary of Sources of Revenues**

| | May 31, | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Dollars | Percent |
| Charges for services | $ 4,849,905 | $ 5,154,542 | $ (304,637) | -5.9% |
| Operating and capital grants | 4,017,796 | 4,985,786 | (967,990) | -19.4% |
| Taxes | 27,901,486 | 27,500,780 | 400,706 | 1.5% |
| Use of money and property | 346,801 | 133,223 | 213,578 | 160.3% |
| State aid | 696,672 | 732,710 | (36,038) | -4.9% |
| Other | 202,293 | 105,479 | 96,814 | 91.8% |
| Total revenues | $ 38,014,953 | $ 38,612,520 | $ (597,567) | -1.5% |

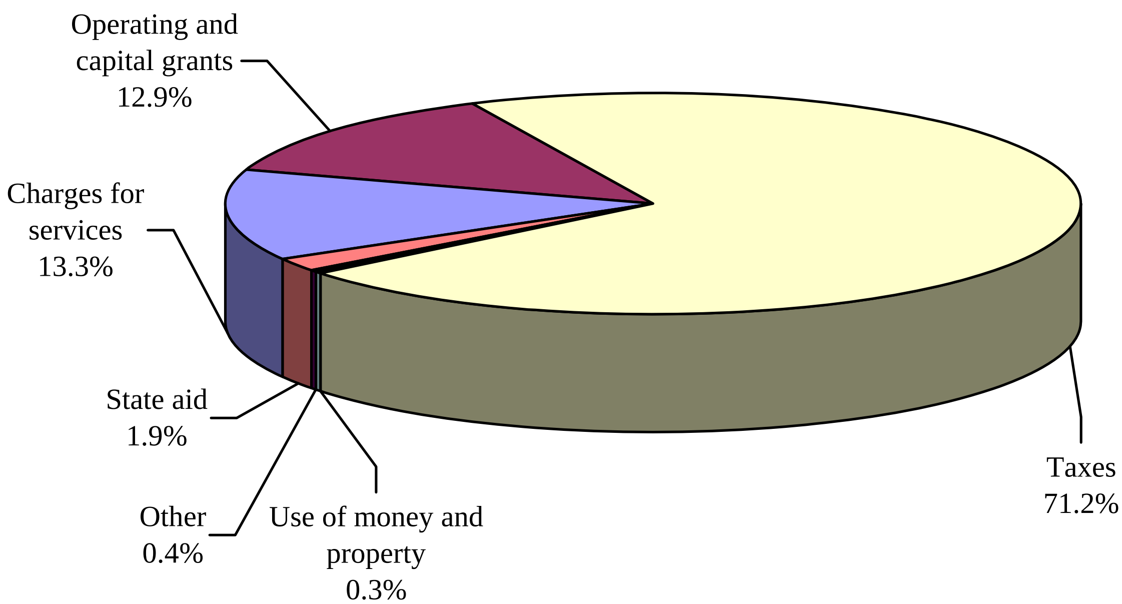
As presented in Figure 2 on the following page, the most significant source of revenues is taxes, which account for $27,901,486, or 73.4 percent of total revenues for the year ended May 31, 2010 and $27,500,780, or 71.2 percent of total revenues for the year ended May 31, 2009. The next largest sources of revenues is charges for services, which accounts for $4,849,905, or 12.8 percent of total revenues, for the year ended May 31, 2010 and $5,154,542, or 13.3 percent of total revenues for the year ended May 31, 2009.

**Figure 2—Revenues by Source**

**Year Ended May 31, 2010**




**Year Ended May 31, 2009**



A summary of program expenses for the years ended May 31, 2010 and May 31, 2009 is presented below:

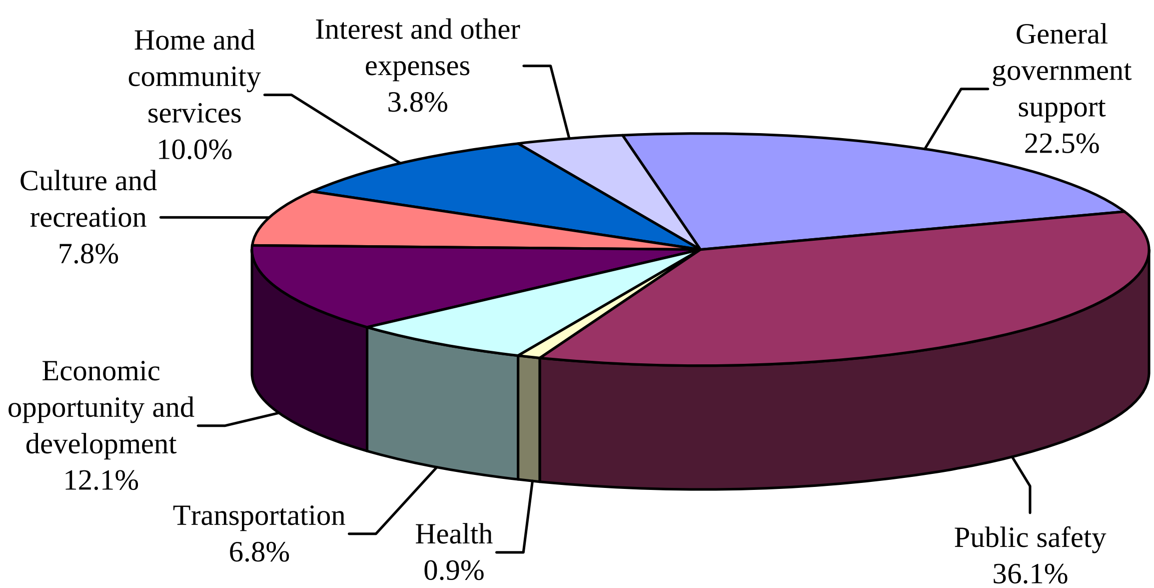
**Table 5—Summary of Sources of Expenses**

| | May 31, | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | Dollars | Percent |
| General government support | $ 8,883,450 | $ 8,674,341 | $ 209,109 | 2.4% |
| Public safety | 14,266,386 | 16,307,625 | (2,041,239) | -12.5% |
| Health | 353,149 | 368,887 | (15,738) | -4.3% |
| Transportation | 2,676,643 | 2,776,506 | (99,863) | -3.6% |
| Economic opportunity and development | 4,787,945 | 3,618,729 | 1,169,216 | 32.3% |
| Culture and recreation | 3,076,878 | 2,730,497 | 346,381 | 12.7% |
| Home and community services | 3,493,753 | 3,069,439 | 424,314 | 13.8% |
| Interest and other expenses | 1,558,680 | 1,503,405 | 55,275 | 3.7% |
| Total program expenses | $ 39,096,884 | $ 39,049,429 | $ 47,455 | 0.1% |

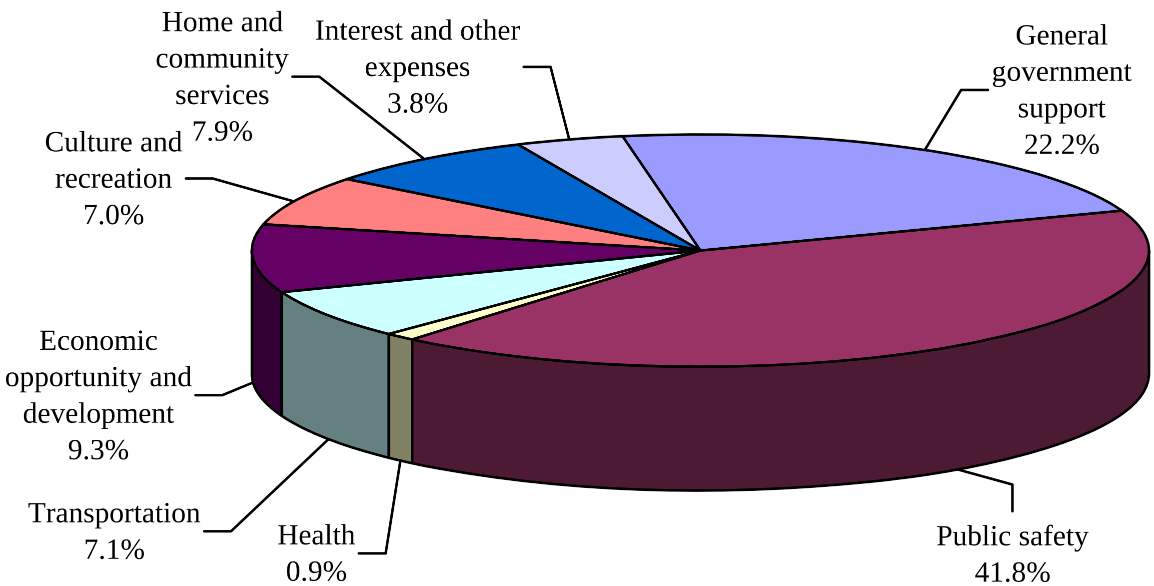
As presented in Figure 3, below, the Village's significant expense items for the year ended May 31, 2010 were public safety of $14,266,386, general government support of $8,883,450, and economic opportunity and development of $4,787,945. Similarly, significant expense items for the year ended May 31, 2009 were public safety of $16,307,625, general government support of $8,674,341, and economic opportunity and development of $3,618,729.

**Figure 3—Program Expenses by Type**

**Year Ended May 31, 2010**



**Year Ended May 31, 2009**




## Financial Analysis of the Village's Funds

***Governmental funds.*** The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance (deficit)* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

At of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of $13,825,033, a decrease of $53,095 in comparison with the prior year. This decrease is mainly attributed to the transfer of the Section 8 Housing Assistance to the County, which was partially offset by positive operations in the General Fund.

At May 31, 2010, the General Fund reported fund balance of $8,855,985, an increase of $440,241 from the prior year. Approximately 58.4 percent, or $5,175,231, of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for the subsequent year's expenditures, as noted within the Village budget, or it was reserved for workers' compensation payments, liability claims, encumbrances, prepaid expenditures or debt service.

The Capital Projects Fund fund balance increased $63,080 from prior year to a balance of $3,991,765.

The Section 8 Housing Assistance Fund fund balance decreased by $534,731 due to the transfer of operations to the County.

***General Fund Budgetary Highlights.*** During the year end May 31, 2010, there was a $1,597,822 net increase in appropriations between the original and final amended General Fund budget. Significant budget increases include:

- ♦ $1,088,554 supplemental appropriations for general government support to compensate for increased costs related to judgments and claims that were not anticipated at the time of the original budget.

- ♦ $400,477 supplemental appropriations for transfers out for capital projects, which were not expected when the original budget was adopted.

These supplemental appropriations were financed by non property tax distributions.

**Capital Asset and Debt Administration**

**Capital assets.** The Village's investment in capital assets for its governmental activities as of May 31, 2010, amounted to $42,433,090 (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, 2010 and May 31, 2009 are presented on the following page.

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

| | May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Land | $ 890,022 | $ 890,022 |
| Construction in process | 5,105,071 | 888,810 |
| Land improvements | 3,555,891 | 3,771,033 |
| Buildings and improvements | 16,241,187 | 16,783,560 |
| Infrastructure | 12,855,936 | 13,518,795 |
| Machinery and equipment | 3,784,983 | 4,117,769 |
| Total | $ 42,433,090 | $ 39,969,989 |

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

**Long-term debt.** At May 31, 2010, the Village had total bonded debt outstanding of $38,702,081, as compared to $37,001,081 in the prior year.

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

## Economic Factors

The unemployment rate for the Village of Port Chester, New York at May 2010 was 5.6 percent, which is a steady improvement from 6.2 percent a year ago. This compares favorably to New York State's average unemployment rate of 8.0 percent and is favorable compared to the national average rate of 9.7 percent. All of these factors are considered in preparing the Village's budgets. Despite the economic hardships, the Village's General Fund continues to be in stable condition.

## Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Treasurer's Office, Village of Port Chester, 222 Grace Church Street, Port Chester, NY 10573.

# BASIC FINANCIAL STATEMENTS

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# VILLAGE OF PORT CHESTER, NEW YORK
## Statement of Net Assets (Deficit)
## May 31, 2010

| | Primary Government | Component Units | |
|---|---|---|---|
| | Governmental Activities | Industrial Development Agency | Housing Authority |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 14,112,193 | $ 202,985 | $ 3,390,368 |
| Investments | 1,315,850 | - | 200,696 |
| Accounts receivable | 617,733 | - | 172,722 |
| Due from other governments | 1,999,642 | 331 | - |
| Prepaid expenses | 305,532 | - | 94,021 |
| Inventories | - | - | 57,931 |
| Capital assets not being depreciated | 5,995,093 | - | 745,865 |
| Capital assets being depreciated (net of accumulated depreciation) | 36,437,997 | - | 4,167,640 |
| Total assets | $ 60,784,040 | $ 203,316 | $ 8,829,243 |
| **LIABILITIES** | | | |
| Accounts payable | $ 1,570,914 | $ 12,474 | $ 252,260 |
| Accrued liabilities | 1,199,952 | - | 46,892 |
| Internal balances | 72,900 | - | - |
| Retainage payable | 171,399 | - | - |
| Due to other governments | 625,598 | - | 90,626 |
| Due to employee retirement system | 301,206 | - | - |
| Unearned revenue and other liabilities | 919,685 | - | 369,022 |
| Non-current liabilities: | | | |
| Due within one year | 2,873,771 | - | - |
| Due within more than one year | 45,712,112 | - | 497,391 |
| Total liabilities | 53,447,537 | 12,474 | 1,256,191 |
| **NET ASSETS:** | | | |
| Investment in capital assets, net of related debt | 12,915,947 | - | 4,913,505 |
| Restricted | 2,979,952 | - | - |
| Unrestricted | (8,559,396) | 190,842 | 2,659,547 |
| Total net assets | $ 7,336,503 | $ 190,842 | $ 7,573,052 |

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, 2010**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | Component Units | |
| Function/Program | Expense | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Industrial Development Agency | Housing Authority |
| **Primary Government:** | | | | | | | |
| General government support | $ 8,883,450 | $ 864,008 | $ - | $ 11,252 | $ (8,008,190) | $ - | $ - |
| Public safety | 14,266,386 | 3,112,513 | 4,050 | - | (11,149,823) | - | - |
| Health | 353,149 | 17,076 | 37,066 | - | (299,007) | - | - |
| Transportation | 2,676,643 | 43,251 | - | - | (2,633,392) | - | - |
| Economic opportunity and development | 4,787,945 | - | - | - | (4,787,945) | - | - |
| Culture and recreation | 3,076,878 | 181,459 | 21,046 | 47,524 | (2,826,849) | - | - |
| Home and community services | 3,493,753 | 631,598 | 389,123 | 3,507,735 | 1,034,703 | - | - |
| Interest and other fiscal charges | 1,558,680 | - | - | - | (1,558,680) | - | - |
| Total primary government | $ 39,096,884 | $ 4,849,905 | $ 451,285 | $ 3,566,511 | (30,229,183) | - | - |
| **Component Units:** | | | | | | | |
| Industrial Development Agency | $ 27,709 | $ - | $ 288 | $ - | | $ (27,421) | $ - |
| Housing Authority | 3,977,785 | 1,924,847 | 2,023,319 | 240,656 | | - | 211,037 |
| Total component units | $ 4,005,494 | $ 1,924,847 | $ 2,023,607 | $ 240,656 | | (27,421) | 211,037 |
| General revenues: | | | | | | | |
| Taxes | | | | | 27,901,486 | - | - |
| Use of money and property | | | | | 346,801 | - | 13,089 |
| State aid | | | | | 696,672 | - | - |
| Miscellaneous | | | | | 202,293 | 3,021 | 2,000 |
| Total general revenues | | | | | 29,147,252 | 3,021 | 15,089 |
| Change in net assets | | | | | (1,081,931) | (24,400) | 226,126 |
| Net assets—beginning | | | | | 8,418,434 | 215,242 | 7,346,926 |
| Net assets—ending | | | | | $ 7,336,503 | $ 190,842 | $ 7,573,052 |

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, 2010**

| | General Fund | Capital Projects Fund | Section 8 Housing Assistance | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 7,846,657 | $ 5,110,853 | $ 635,378 | $ 519,305 | $14,112,193 |
| Investments | 560,516 | 755,334 | - | - | 1,315,850 |
| Accounts receivable | 614,396 | 3,337 | - | - | 617,733 |
| Due from other funds | 131,908 | 143 | - | 463,036 | 595,087 |
| Due from other governments | 1,733,592 | 266,050 | - | - | 1,999,642 |
| Prepaid expenditures | 305,532 | - | - | - | 305,532 |
| Total assets | $11,192,601 | $ 6,135,717 | $ 635,378 | $ 982,341 | $18,946,037 |
| **LIABILITIES AND FUND BALANCES (DEFICITS)** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 852,046 | $ 709,088 | $ 9,780 | $ - | $ 1,570,914 |
| Accrued liabilities | 862,495 | - | - | 1,720 | 864,215 |
| Due to other funds | 75,143 | 589,506 | - | 3,338 | 667,987 |
| Retainage payable | - | 171,399 | - | - | 171,399 |
| Due to other governments | - | - | 625,598 | - | 625,598 |
| Due to employee retirement system | 301,206 | - | - | - | 301,206 |
| Deferred revenue | 245,726 | 673,959 | - | - | 919,685 |
| Total liabilities | 2,336,616 | 2,143,952 | 635,378 | 5,058 | 5,121,004 |
| Fund balances (deficits): | | | | | |
| Reserved for: | | | | | |
| Workers' compensation payments | 1,888,382 | - | - | - | 1,888,382 |
| Liability claims | 114,287 | - | - | - | 114,287 |
| Encumbrances | 122,329 | - | - | - | 122,329 |
| Prepaid expenditures | 305,532 | - | - | - | 305,532 |
| Special purposes | - | - | - | 30,368 | 30,368 |
| Capital projects | - | 4,256,615 | - | - | 4,256,615 |
| Debt service | 600,224 | - | - | 946,915 | 1,547,139 |
| Unreserved: | | | | | |
| Designated for subsequent year's expenditures | 650,000 | - | - | - | 650,000 |
| Undesignated | 5,175,231 | (264,850) | - | - | 4,910,381 |
| Total fund balances (deficits) | 8,855,985 | 3,991,765 | - | 977,283 | 13,825,033 |
| Total liabilities and fund balances (deficits) | $11,192,601 | $ 6,135,717 | $ 635,378 | $ 982,341 | $18,946,037 |

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

# VILLAGE OF PORT CHESTER, NEW YORK
## Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
## May 31, 2010

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

| | | |
|---|---|---|
| Fund balances—total governmental funds | | $ 13,825,033 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $59,431,219 and the accumulated depreciation is $16,998,129. | | 42,433,090 |
| To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is $335,737 at year end. | | (335,737) |
| 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 | $ (38,702,081) | |
| Compensated absences | (4,511,826) | |
| OPEB liability | (4,030,000) | |
| Judgments and claims | (1,341,976) | (48,585,883) |
| Net assets of governmental activities | | $ 7,336,503 |

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, 2010**

| | General Fund | Capital Projects Fund | Section 8 Housing Assistance | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Property taxes | $22,875,121 | $ - | $ - | $ - | $22,875,121 |
| Other tax items | 657,480 | - | - | - | 657,480 |
| Non-property tax items | 4,368,885 | - | - | - | 4,368,885 |
| Departmental income | 2,708,561 | - | - | - | 2,708,561 |
| Use of money and property | 329,343 | - | - | 17,458 | 346,801 |
| Licenses and permits | 165,927 | - | - | - | 165,927 |
| Fines and forfeitures | 1,975,417 | - | - | - | 1,975,417 |
| Miscellaneous | 238,067 | 549,928 | 27,249 | 33,360 | 848,604 |
| State aid | 758,834 | - | - | - | 758,834 |
| Federal aid | 287,210 | 414,961 | 2,607,152 | - | 3,309,323 |
| Total revenues | 34,364,845 | 964,889 | 2,634,401 | 50,818 | 38,014,953 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government support | 6,515,449 | - | - | - | 6,515,449 |
| Public safety | 10,024,255 | 111,356 | - | - | 10,135,611 |
| Health | 261,723 | - | - | - | 261,723 |
| Transportation | 1,488,715 | - | - | - | 1,488,715 |
| Economic opportunity and developmen | 380,230 | - | 3,169,132 | - | 3,549,362 |
| Culture and recreation | 2,057,732 | - | - | 39,909 | 2,097,641 |
| Home and community services | 2,369,848 | 288,263 | - | - | 2,658,111 |
| Employee benefits | 7,314,395 | - | - | - | 7,314,395 |
| Capital outlay | - | 4,216,261 | - | - | 4,216,261 |
| Debt service: | | | | | |
| Principal | 2,538,000 | - | - | - | 2,538,000 |
| Interest | 1,531,780 | - | - | - | 1,531,780 |
| Total expenditures | 34,482,127 | 4,615,880 | 3,169,132 | 39,909 | 42,307,048 |
| (Deficiency) of revenues (under) expenditures | (117,282) | (3,650,991) | (534,731) | 10,909 | (4,292,095) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | 475,000 | 400,477 | - | 442,406 | 1,317,883 |
| Transfers out | (400,477) | (442,406) | - | (475,000) | (1,317,883) |
| Proceeds from bond issuance | 483,000 | 3,756,000 | - | - | 4,239,000 |
| Total other financing sources (uses) | 557,523 | 3,714,071 | - | (32,594) | 4,239,000 |
| Net change in fund balances | 440,241 | 63,080 | (534,731) | (21,685) | (53,095) |
| Fund balances─beginning | 8,415,744 | 3,928,685 | 534,731 | 998,968 | 13,878,128 |
| Fund balances─ending | $ 8,855,985 | $ 3,991,765 | $ - | $ 977,283 | $13,825,033 |

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—Governmental Fund to the Statement of Activities**

**Year Ended May 31, 2010**

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

| | | |
|---|---|---|
| Net change in fund balances—total governmental funds | | $ (53,095) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. | | |
| Capital asset additions | $ 4,814,339 | |
| Depreciation expense | (2,351,238) | 2,463,101 |
| 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 | $ 2,538,000 | |
| Issuance of serial bonds | (4,239,000) | |
| Change in accrued interest | (26,900) | (1,727,900) |
| 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 | $ 65,193 | |
| OPEB | (2,080,000) | |
| Judgments and claims | 250,770 | (1,764,037) |
| Change in net assets of governmental activities | | $ (1,081,931) |

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—General Fund**
**Year Ended May 31, 2010**

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Property taxes | $ 22,870,783 | $ 22,870,783 | $ 22,875,121 | $ 4,338 |
| Other tax items | 504,594 | 504,594 | 657,480 | 152,886 |
| Non-property tax items | 3,669,000 | 3,669,000 | 4,368,885 | 699,885 |
| Departmental income | 2,560,890 | 2,560,890 | 2,708,561 | 147,671 |
| Use of money and property | 425,400 | 425,400 | 329,343 | (96,057) |
| Licenses and permits | 150,850 | 150,850 | 165,927 | 15,077 |
| Fines and forfeitures | 1,604,000 | 1,630,162 | 1,975,417 | 345,255 |
| Miscellaneous | 44,500 | 82,359 | 238,067 | 155,708 |
| State aid | 749,814 | 749,814 | 758,834 | 9,020 |
| Federal aid | 353,815 | 353,815 | 287,210 | (66,605) |
| Total revenues | 32,933,646 | 32,997,667 | 34,364,845 | 1,367,178 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government support | 5,539,123 | 6,627,677 | 6,515,449 | 112,228 |
| Public safety | 10,253,149 | 10,306,688 | 10,024,255 | 282,433 |
| Health | 267,800 | 267,800 | 261,723 | 6,077 |
| Transportation | 1,567,730 | 1,559,395 | 1,488,715 | 70,680 |
| Economic opportunity and development | 396,371 | 401,323 | 380,230 | 21,093 |
| Culture and recreation | 2,034,085 | 2,120,515 | 2,057,732 | 62,783 |
| Home and community services | 2,576,661 | 2,643,654 | 2,369,848 | 273,806 |
| Employee benefits | 7,438,727 | 7,343,939 | 7,314,395 | 29,544 |
| Debt service: | | | | |
| Principal | 2,538,000 | 2,538,000 | 2,538,000 | - |
| Interest | 1,547,000 | 1,547,000 | 1,531,780 | 15,220 |
| Total expenditures | 34,158,646 | 35,355,991 | 34,482,127 | 873,864 |
| Excess (deficiency) of revenues over (under) expenditures | (1,225,000) | (2,358,324) | (117,282) | 2,241,042 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | 475,000 | 475,000 | 475,000 | - |
| Transfers out | - | (400,477) | (400,477) | - |
| Proceeds from bond issuance | - | 483,000 | 483,000 | - |
| Total other financing sources (uses) | 475,000 | 557,523 | 557,523 | - |
| Net change in fund balances | (750,000) | (1,800,801) | 440,241 | 2,241,042 |
| Fund balances—beginning | 8,415,744 | 8,415,744 | 8,415,744 | - |
| Fund balances—ending | $ 7,665,744 | $ 6,614,943 | $ 8,855,985 | $ 2,241,042 |

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

# VILLAGE OF PORT CHESTER, NEW YORK
## Statement of Fiduciary Net Assets—Fiduciary Fund
## May 31, 2010

| | | Agency Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 521,937 |
| Due from other funds | | 72,900 |
| Total assets | $ | 594,837 |
| | | |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Temporary withholding liabilities | $ | 571,294 |
| Accounts payable | | 23,543 |
| Total liabilities | $ | 594,837 |

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

## 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 Village law 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:

| | |
|---|---|
| Mayor | Village Clerk |
| Councilmembers (5) | Village Justices (2) |

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 units.** The following entities are considered to be component units to the Village's reporting entity because of their operational or financial relationship with the Village:

The Port Chester Housing Authority ("Authority") is a public benefit corporation created by State legislation to promote the development of adequate housing for the citizens of the Village. Five of the seven members of the Authority are appointed by the Village for specified terms and, therefore, the Village could impose its will on the Authority. Since the Village is responsible for deficits incurred that could result in a financial burden, the Authority is presented as a discretely presented component unit within the Village's financial instruments.

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

***Government-wide and Fund Financial Statements.***

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within sixty-days of the fiscal year end. A ninety-day availability period is used for revenue recognition for all other governmental fund revenues. Property taxes associated with the current fiscal period as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, certain claims and other post employment benefit obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

The Village considers the following governmental funds as major funds:

- *General Fund*—The General Fund constitutes the primary operating fund of the Village in that it includes all revenues and expenditures not required by law to be accounted for in other funds.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- *Section 8 Housing Assistance*—This fund is used to account for grant monies related to the Section 8 Housing Assistance Program. During the year ended May 31, 2010, the Village transferred its Section 8 Housing Assistance Program operations to Westchester County.

Additionally, the Village reports the following governmental funds:

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

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

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

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

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

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

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

The Capital Projects Fund, Section 8 Housing Assistance Payment Program Fund and Special Purpose Fund appropriations are not included in the Village's annual budget. Instead, appropriations are approved through a Village Board resolution at the grant/project's inception and lapse upon completion/ termination of the grant/project.

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

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

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

***Property taxes***—Village property taxes are levied annually on June 1. The Village tax rate is based on the amount per $1,000 assessed valuation. Delinquent accounts of sewer billings are transferred to the Village real property tax roll annually for re-levy and collection. Taxes may be paid to the Village between June 1 and October 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:

| | Years |
|---|---|
| Land Improvements | 10-50 |
| Buildings and Improvements | 20-50 |
| Infrastructure | 25-50 |
| Machinery and Equipment | 5-10 |

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

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

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

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

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

***Future Impacts of Accounting Pronouncements***—During the year ended May 31, 2010, the Village implemented GASB No. 52 *Land and Other Real Estate Held as Investments by Endowments.* This statement did not have a material impact on the Village's financial position or results of operations.

The Village has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative* and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the year ending May 31, 2011; GASB Statement No. 54, *Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*, effective for the year ending May 31, 2012; and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending May 31, 2013. The Village is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 51, 53, 54, 57, 58 and 59 will have on its financial position and results of operations.

## 2. LEGAL COMPLIANCE—BUDGETS

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

1. On or before March 20th, the budget officer submits to the Village Clerk a "tentative" operating budget for the following fiscal year to commence on June 1$^{st}$. This budget includes the proposed expenditures and means of financing.

2. The Board of Trustees, on or before March 31$^{st}$, meets to discuss and review the tentative budget.

3. The Board of Trustees conducts a public hearing on the tentative budget to obtain taxpayer comments on or before April 15th.

4. After the public hearing and on or before May 1st, the Trustees meet to consider and adopt the budget.

5. Formal budgetary integration is employed during the year as a management control device for the General Fund.

6. A budget for the General Fund is legally adopted annually on a basis consistent with generally accepted accounting principles. The Capital Projects Fund is budgeted on a project basis. Annual budgets are not adopted for the Debt Service, Section 8 Housing Assistance Payment Program 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 (uncollateralized) | $ 550 | $ - | $ 550 |
| Deposits | 14,111,643 | 521,937 | 14,633,580 |
| Total | $14,112,193 | $ 521,937 | $ 14,634,130 |

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

The following is a summary of deposits:

| | Bank Balance | Carrying Balance |
|---|---|---|
| Insured (FDIC) | $ 8,538,730 | $ 8,438,259 |
| Uninsured: | | |
| Collateral held by bank's agent in the Village's name | 6,195,321 | 6,195,321 |
| Total | $ 14,734,051 | $ 14,633,580 |

***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, 2010, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution’s trust department or agent in the Village’s name.

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

CLASS is rated AAA/V1+ by Fitch Ratings. Local government investment cooperatives in this rating category meet the highest standards for credit quality, conservative investment policies and safety of principal. The cooperative invests in a high quality portfolio of investments legally permissible for municipalities and schools in the State. The Village’s investments at May 31, 2010 consisted of:

| | |
|---|---|
| General Fund | $ 560,516 |
| Capital Projects Fund | 755,334 |
| Total | $ 1,315,850 |

**Port Chester Industrial Development Agency**

The Agency’s investment policies are governed by New York State statutes. There were no investments at May 31, 2010. All deposits are carried at fair value.

Cash and cash equivalents:

| | May 31, 2010 | |
|---|---|---|
| | Bank Balance | Carrying Amount |
| Insured (FDIC) | $ 202,985 | $ 202,985 |

**Port Chester Housing Authority**

All cash and demand deposits are entirely insured or collateralized. The Authority cash in bank was $3,472,940 at March 31, 2010

## 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 2009-10 was $54,996,540, which exceeded the actual levy by $32,125,757.

## 5. RECEIVABLES

Major revenues accrued by the Village at May 31, 2010:

***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, 2010 are:

| | | |
|---|---|---|
| General Fund: | | |
| Village Court | $ 225,299 | |
| Utility taxes | 91,506 | |
| Franchise fees | 50,024 | |
| Other | 247,567 | 614,396 |
| Capital Projects Fund | | 3,337 |
| Total | | $ 617,733 |

***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, 2010 are:

| | | |
|---|---|---|
| General Fund: | | |
| Westchester County: | | |
| Taxes receivable | $1,612,713 | |
| Other | 41,779 | |
| New York State: | | |
| Office of Children & Family Service | 11,762 | |
| Office of Community Renewal | 9,775 | |
| Department of Transportation | 6,817 | |
| Other | 50,746 | 1,733,592 |
| Capital Projects Fund: | | |
| New York State: | | |
| Department of Transportation | 120,045 | |
| Various grants | 146,005 | 266,050 |
| | | $1,999,642 |

## 6. INTERFUNDS

Interfund receivables and payables of the Village at May 31, 2010 consisted of the following:

| | Interfund Receivable | Interfund Payable |
|---|---|---|
| Governmental Funds: | | |
| General Fund | $ 131,908 | $ 75,143 |
| Capital Projects Fund | 143 | 589,506 |
| Debt Service Fund | 463,036 | 3,338 |
| Fiduciary Fund | 72,900 | - |
| | $ 667,987 | $ 667,987 |

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, 2010:

| | Transfers out: General Fund | Capital Projects Fund | Debt Service Fund | Total |
|---|---|---|---|---|
| Transfers in: | | | | |
| General Fund | $ - | $ - | $ 475,000 | $ 475,000 |
| Capital Projects Fund | 400,477 | - | - | 400,477 |
| Debt Service Fund | - | 442,406 | - | 442,406 |
| | $ 400,477 | $ 442,406 | $ 475,000 | $ 1,317,883 |

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

## 7. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2010 was as follows:

| | Balance June 1, 2009 | Additions | Deletions | Balance May 31, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 890,022 | $ - | $ - | $ 890,022 |
| Construction in progress | 888,810 | 4,216,261 | - | 5,105,071 |
| Total capital assets, not being depreciated | 1,778,832 | 4,216,261 | - | 5,995,093 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 4,660,955 | - | - | 4,660,955 |
| Building and improvements | 19,179,749 | - | - | 19,179,749 |
| Infrastructure | 16,501,544 | - | - | 16,501,544 |
| Machinery and equipment | 12,495,800 | 598,078 | - | 13,093,878 |
| Total capital assets, being depreciated | 52,838,048 | 598,078 | - | 53,436,126 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (889,922) | (215,142) | - | (1,105,064) |
| Building and improvements | (2,396,189) | (542,373) | - | (2,938,562) |
| Infrastructure | (2,982,749) | (662,859) | - | (3,645,608) |
| Machinery and equipment | (8,378,031) | (930,864) | - | (9,308,895) |
| Total accumulated depreciation | (14,646,891) | (2,351,238) | - | (16,998,129) |
| Total capital assets, being depreciated, net | 38,191,157 | (1,753,160) | - | 36,437,997 |
| Governmental activities capital assets, net | $ 39,969,989 | $ 2,463,101 | $ - | $ 42,433,090 |

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

| | |
|---|---|
| Governmental activities: | |
| General government support | $ 416,135 |
| Public safety | 758,320 |
| Transportation | 721,061 |
| Economic opportunity and development | 20,182 |
| Culture and recreation | 246,486 |
| Home and community service | 189,054 |
| Total depreciation expense | $ 2,351,238 |

**Port Chester Housing Authority—**Capital asset activity of the Authority for the year ended March 31, 2010 was as follows:

| | Balance April 1, 2009 | Additions | Deletions | Balance March 31, 2010 | Accumulated Depreciation | Net |
|---|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | | |
| Land | $ 519,240 | $ - | $ - | $ 519,240 | | $ 519,240 |
| Construction in progress | 660,001 | - | 433,376 | 226,625 | | 226,625 |
| Capital assets, being depreciated: | | | | | | |
| Buildings | 15,109,460 | 477,120 | - | 15,586,580 | $ (11,927,392) | 3,659,188 |
| Machinery and equipment, Dwellings | 363,561 | - | - | 363,561 | (342,267) | 21,294 |
| Machinery and equipment, Administration | 238,128 | 52,601 | 25,748 | 264,981 | (193,007) | 71,974 |
| Leasehold improvements | 1,290,640 | 174,410 | - | 1,465,050 | (1,049,866) | 415,184 |
| Total | $ 18,181,030 | $ 704,131 | $ 459,124 | $ 18,426,037 | $ (13,512,532) | $ 4,913,505 |

## 8. LONG-TERM DEBT

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

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, 2010 can be found below:

| | Interest Rate | Maturity | Balance June 1, 2009 | Additions | Payments | Balance May 31, 2010 |
|---|---|---|---|---|---|---|
| General Fund: | | | | | | |
| Serial Bond Issue | 5.80% | 1994-2010 | $ 75,000 | $ - | 75,000 | $ - |
| Serial Bond Issue | 5.25% | 1995-2011 | 265,000 | - | 130,000 | 135,000 |
| Serial Bond Issue | 5.10% | 1996-2011 | 475,000 | - | 150,000 | 325,000 |
| Serial Bond Issue | 4.25% | 1998-2011 | 745,000 | - | 365,000 | 380,000 |
| Serial Bond Issue | 4.50% | 2001-2021 | 3,820,000 | - | 245,000 | 3,575,000 |
| Serial Bond Issue | 4.10% | 2002-2022 | 5,655,000 | - | 305,000 | 5,350,000 |
| Serial Bond Issue | 4.02% | 2003-2024 | 3,200,000 | - | 145,000 | 3,055,000 |
| Serial Bond Issue | 5.70% | 2003-2024 | 2,840,000 | - | 115,000 | 2,725,000 |
| Serial Bond Issue | 3.83% | 2004-2021 | 3,185,000 | - | 190,000 | 2,995,000 |
| Taxable Pension Issue | 4.88% | 2005-2010 | 153,000 | - | 153,000 | - |
| Serial Bond Issue | 3.96% | 2005-2025 | 4,740,000 | - | 195,000 | 4,545,000 |
| Taxable Pension Issue | 4.80% | 2006-2011 | 150,000 | - | 75,000 | 75,000 |
| Serial Bond Issue | 4.00% | 2006-2026 | 2,950,000 | - | 110,000 | 2,840,000 |
| Serial Bond Issue | 3.75% | 2007-2024 | 6,400,000 | - | 285,000 | 6,115,000 |
| Serial Bond Issue | 4.25% | 2008-2028 | 2,348,081 | - | - | 2,348,081 |
| Judgments & Claims | 2.50% | 2009-2015 | - | 483,000 | - | 483,000 |
| Serial Bond Issue | 3.49% | 2009-2026 | - | 3,756,000 | - | 3,756,000 |
| | | | $37,001,081 | $4,239,000 | $ 2,538,000 | $ 38,702,081 |

The Village has intentions of, and has approved, the issuance of a $2,000,000 bond anticipation note; to be paid in a five-year term and entered into in the fiscal year ending May 31, 2011.

***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. Management estimates that $225,591 is due within one year. A non-current liability totaling $4,286,235 has been recorded. Since the payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

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

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

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

| | Workers' Compensation | General Liability | Total |
|---|---|---|---|
| Balance—June 1, 2008 | $ 1,040,509 | $ 165,100 | $ 1,205,609 |
| Provision for claims and claims adjustments expenses | 1,328,786 | 449,245 | 1,778,031 |
| Claims and claims adjustment expenses paid | (1,322,149) | (68,745) | (1,390,894) |
| Balance—May 31, 2009 | $ 1,047,146 | $ 545,600 | $ 1,592,746 |

***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, 2010 are:

| Year ending May 31, | Serial Bonds | Compensated Absences | Judgments and Claims | OPEB Liability | Total |
|---|---|---|---|---|---|
| 2011 | $ 2,581,081 | $ 225,591 | $ 67,099 | $ - | $ 2,873,771 |
| 2012 | 2,281,000 | - | - | - | 2,281,000 |
| 2013 | 2,205,000 | - | - | - | 2,205,000 |
| 2014 | 2,305,000 | - | - | - | 2,305,000 |
| 2015 | 2,390,000 | - | - | - | 2,390,000 |
| 2016-2020 | 13,060,000 | - | - | - | 13,060,000 |
| 2021-2025 | 12,220,000 | - | - | - | 12,220,000 |
| Beyond | 1,660,000 | 4,286,235 | 1,274,877 | 4,030,000 | 11,251,112 |
| Total | $ 38,702,081 | $ 4,511,826 | $ 1,341,976 | $ 4,030,000 | $ 48,585,883 |

***Summary of Changes in Long-Term Debt*—**The following is a summary of changes in long-term debt for the year ended May 31, 2010:

| | Balance June 1, 2009 | Additions | Payments | Balance May 31, 2010 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 37,001,081 | $ 4,239,000 | $ 2,538,000 | $ 38,702,081 | $ 2,581,081 |
| Compensated absences | 4,577,019 | 696,403 | 761,596 | 4,511,826 | 225,591 |
| OPEB liability | 1,950,000 | 3,480,000 | 1,400,000 | 4,030,000 | - |
| Judgements & claims | 1,592,746 | 1,835,594 | 2,086,364 | 1,341,976 | 67,099 |
| Total | $ 45,120,846 | $ 10,250,997 | $ 6,785,960 | $ 48,585,883 | $ 2,873,771 |

**Port Chester Housing Authority**

***Conduit Debt Obligations*—**The Department of Housing and Urban Development ("HUD") has guaranteed two types of debt which, under GASB Interpretation Number 2, the Authority has classified as conduit debt obligations. New Housing Authority ("NHA") bonds were issued to the public by PHAs to provide long-term financing for the development of new housing projects. The bonds are secured by annual contributions unconditionally payable by HUD and are exempt from Federal income taxes. In the early 1980s, the prevailing interest rate was higher than HUD was willing to pay. As a result, new PHA debt became unmarketable. Between 1980 and 1983, Federal Financing Bank ("FFB") agreed to purchase outstanding debt obligations that had been certified by HUD as the actual development or modernization cost for a project. HUD repays FFB annually. As of March 31, 2010, the aggregate amount of all conduit debt obligations outstanding was less than $100,000. In conjunction with the payment of this conduit debt, a treasury account is maintained at JPMorgan Chase Bank.

## 9. PENSION PLANS

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

***Funding Policy***—The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. The State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years of service or more of credited service. Employees hired after January 1, 2010 contribute 3% of their salary for the duration of their membership in the System. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

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 |
|---|---|---|
| 2010 | $ 415,940 | $1,199,314 |
| 2009 | 445,335 | 1,100,032 |
| 2008 | 457,259 | 1,066,054 |

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

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.

- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2010 would be based on the pension value as of March 31, 2009.)

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.

- For SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries.

- For SFY 2007-08, the amount in excess of 10.5 percent of employees' covered pensionable salaries.

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

**Port Chester Housing Authority**

The Authority participates in the New York State ERS. The required contributions for the current year and the two preceding years were:

| | |
|---|---|
| 2010 | $ 57,134 |
| 2009 | 53,654 |
| 2008 | 69,430 |

## 10. OTHER POSTEMPLOYMENT BENEFITS

***Plan Description***—In addition to providing pension benefits, the Village provides health insurance coverage and/or payment for fractional values of unused sick leave to eligible retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the Village may vary according to length of service. The cost of providing post-employment benefits is shared between the Village and the retired employee. Substantially all of the Village's employees may become eligible for these benefits if they reach normal retirement age while working for the Village. The cost of retiree health care benefits is recognized as an expenditure/payable as claims are paid. There were 130 retirees receiving health care benefits at May 31, 2010.

***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 following table 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 Town's net OPEB obligation.

| | 2010 | 2009 |
|---|---|---|
| Annual required contribution | $ 3,470,000 | $ 3,180,000 |
| Interest on net OPEB obligation | 90,000 | 140,000 |
| Adjustment to annual required contribution | (80,000) | - |
| Annual OPEB costs (expense) | 3,480,000 | 3,320,000 |
| Contributions made | (1,400,000) | (1,370,000) |
| Increase in net OPEB obligation | 2,080,000 | 1,950,000 |
| Net OPEB obligation - beginning of year | 1,950,000 | - |
| Net OPEB obligation - end of year | $ 4,030,000 | $ 1,950,000 |

As of June 1, 2009, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was $51,800,000.

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, 2010, the Village has had two actuarial valuations performed. Accordingly, information from the studies is presented in the Village's Schedule of Funding Progress and the Schedule of the Village's Contributions below.

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

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

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

| Year Ended May 31, | Annual OPEB Cost | Contributions Made | Percentage Contributed |
|---|---|---|---|
| 2009 | $ 3,320,000 | $ 1,370,000 | 41% |
| 2010 | $ 3,480,000 | $ 1,400,000 | 40% |

***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, 2009 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation date of June 1, 2009 and measurement date of May 31, 2010. The expected investment rate of return on employer's assets is 4.5%. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Village does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer's assets. The expected inflation rate is 3.0%. The RP-2000 Mortality Table for males and females is used for mortality rates. The rates of decrement due to disability are assumed to be zero. The assumed rates of increase in health care vary from 5.0% to 10.0% 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, 2010 was twenty-eight years.

**Port Chester Housing Authority**

***Plan Description—***The Authority provides certain health care benefits for retired employees. The various collective bargaining agreements stipulate the employees covered and percentage of contribution. For individuals meeting retirement eligibility, there are no retiree contributions with benefits (premium) paid 100% by employer. The valuation reflects the reimbursement of Medicare Part B premium rates to retirees and spouses over age 65 that are eligible for the benefit. Employees pay and then are reimbursed by the Authority. The number of participants as of March 31, 2010, was 12 actives and 10 retirees.

***Funding Policy***—Funding for the Plan has been established on a pay-as-you-go basis. The Authority currently has no assets set aside for the purpose of paying post employment benefits.

***Annual OPEB Cost and Net OPEB Obligation***—The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

| | | |
|---|---|---|
| Actuarial accrued liability as of April 1, 2009 | $ | 2,840,658 |
| Less asset at market value | | - |
| Unfunded accrued liability | $ | 2,840,658 |
| | | |
| Total annual OPEB cost | $ | 156,373 |
| Less contributions | | (123,414) |
| Net OPEB cost as of the end of fiscal year | | 32,959 |
| Net OPEB obligation at March 31, 2009 | | 42,399 |
| Net OPEB obligation at March 31, 2010 | $ | 75,358 |

The Authority currently has no assets set aside for the purpose of paying post employment benefits. The above table results reflect the valuation of OPEB liabilities for the second year of implementation of GASB Statement No. 45 by the Authority.

***Funded Status and Funding Progress***—As of March 31, 2009, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was $2,840,658, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $2,840,658. The covered payroll (annual payroll of active employees covered by the plan) was $830,109 and the ratio of the UAAL to the covered payroll was 342 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***Actuarial Methods and Assumptions***—Projections of benefits for financial reporting purposes are based onthe substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of the expenses and liabilities for retiree's medical insurance. As a result, the reporting of expenses and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per-capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial liability", and ultimately the ARC.

The normal cost is the proportion of the present value of future benefits of a plan benefits and expenses which is allocated to a valuation year by the actuarial cost method used in the valuation. This is the cost of OPEB attributed to the current year of service. The actuarial cost method used for the valuation is the projected unit credit method.

The actuarial liability is the past service liability or present value of all benefits earned to date. Since retiree medical benefits are not accrued based on a specific formula like a pension plan, the accounting standard (GASB 45) requires the benefits to be earned ratably from date of hire to date of full eligibility for benefits. The amortization basis of the initial actuarial liability is the level dollar method with a closed amortization approach over thirty years.

The discount rate used for valuing long term liability (e.g., actuarial liability) is 6%. As part of the valuation, assumptions are made for health care cost inflation for future benefit projections. For the Authority, the valuation reflected an assumed, annual health care cost inflation rate (increase) of 9% for the first year, and then decreasing the assumption by one percent per year until an ultimate annual inflation rate of 5% is achieved.

The funding progress of the OPEB plan follows:

| 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 April 1, 2008 | $ - | $ 2,734,021 | $ 2,734,021 | 0% | $ 813,917 | 3.36 |
| As of April 1, 2009 | $ - | $ 2,840,658 | $ 2,840,658 | 0% | $ 830,109 | 3.42 |

## 11. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. The following is a summary of changes in assets and liabilities during the year ended May 31, 2010:

| ASSETS | Balance June 1, 2009 | Additions | Deletions | Balance May 31, 2010 |
|---|---|---|---|---|
| Cash | $ 772,093 | $ 16,246,480 | $ 16,496,636 | $ 521,937 |
| Due from other funds | - | 16,039,811 | 15,966,911 | 72,900 |
| Total assets | $ 772,093 | $ 32,286,291 | $ 32,463,547 | $ 594,837 |
| **LIABILITIES** | | | | |
| Temporary withholdings liabilities | $ 639,674 | $ 16,413,155 | $ 16,481,535 | $ 571,294 |
| Accounts payable | 132,419 | 1,507,777 | 1,616,653 | 23,543 |
| Total liabilities | $ 772,093 | $ 17,920,932 | $ 18,098,188 | $ 594,837 |

## 12. LABOR RELATIONS

Village employees are represented by four bargaining units with the balance governed by Village Board rules and regulations. The CSEA Civil Service and the Port Chester Professional Fire Fighters Association both have a contract settled through May 31, 2011. The Port Chester Police Association and the CSEA Supervisory Unit both have an unsettled contract and are in negotiations as of May 31, 2010.

## 13. NET ASSETS, RESERVES AND DESIGNATIONS

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

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

| | | |
|---|---|---|
| Capital assets, net of accumulated depreciation | | $ 42,433,090 |
| Related debt: | | |
| Serial bonds: | | |
| Total serial bonds issued for capital assets | (34,373,982) | |
| Unspent debt proceeds reserved in general | 600,224 | |
| Unspent debt proceeds reserved in capital projects | 4,256,615 | |
| Serial bonds issued for capital assets | | (29,517,143) |
| Investment in capital assets, net of related debt | | $ 12,915,947 |

- ***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 |
| Debt service reserve | 946,915 |
| Special purposes | 30,368 |
| Restricted Net Assets | $ 2,979,952 |

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

In the fund financial statements, reservations that represent portions of fund balance that have been legally segregated for a specific use or is not appropriable for expenditure by the Village at May 31, 2010, and include:

- ***Reserved for Workers' Compensation Payments*—**represents funds provided, pursuant to General Municipal Law, to fund the Village's payments for its self-insured workers' compensation program.

- ***Reserved for Liability Claims*—**represents reserve established in accordance with section 6-n of the General Municipal Law and will be used to pay claims, actions or judgments against the Village that results from personal injuries or property damage.

- ***Reserved for Encumbrances* —**represents funds accumulated for commitments related to unperformed contracts or purchase orders for goods or services.

- ***Reserved for Prepaid Expenditures*—**represents amounts established to account for certain costs paid in advance.

- ***Reserved for Special Purposes*—**represents amounts that report the difference between assets and liabilities of the certain programs with constraints placed on their use by either external parties and/or statute.

- ***Reserved for Capital Projects*—**represents amounts accumulated by the Village for the funding of various capital project expenditures.

- ***Reserved for Debt Service*—**represents amounts set aside for future payments on the Village's indebtedness.

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

Designations represent unreserved fund balance for which there is intent by the Village to use fund balance for a specific purpose. Designations of fund balance at May 31, 2010 include:

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

## 14. DEFICITS

Certain capital projects have deficit unreserved fund balances at May 31, 2010. These deficits are expected to be remedied by future tax revenues, anticipated grants and proceeds from future bond issuances.

## 15. CONTINGENCIES

The Village receives numerous notices of claims for damages occurring generally from false arrest, negligence, bodily injury, breach of contract, defamation of character and invasion of privacy. The filing of such claims commences a statutory period for initiating judicial action. There are currently numerous actions of this type pending against the Village. It is the opinion of the counsel that an adverse decision in any of the claims would not significantly impair the Village's financial condition.

Additionally, the Village 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.

**Port Chester Housing Authority**

*Commitments*—The Authority has engaged various vendors and service providers to support the Authority operations. In conjunction therewith, the authority has contracted with several vendors and service providers for small amounts.

*Concentration of risk*—The risk of loss in the operation of a housing authority is significant. The primary risk is related to that of tenant injuries or death. Additionally, there is a risk of loss to the physical plant in the event of a catastrophe. The Authority has addressed these risks through the purchase of liability insurance with a limit of $5,000,000 and public officials' liability policy with a $1,000,000 limit. Vehicles are insured in accordance with state law, and all real property is insured for its estimated replacement value of $46,815,596.

*Contingencies*—The Authority receives significant assistance from the Federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal and State regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by grantor agencies of the Federal government or their designees. Disallowances by program officials as a result of these audits may become liabilities of the Authority. The Authority institutes eviction proceedings against tenants who have violated provisions of their leases, although the likelihood of monetary recovery is small. Non-management employees of the Authority are covered under a union contract expiring on March 31, 2014.

*Commitments and contingencies related to voluntary non-exchange transactions' purpose restrictions*—The Authority and HUD have entered into an annual contributions contract regarding low income public housing. HUD is to provide an annual subsidy. The Authority has agreed to operate the low income public housing project to provide safe, decent and sanitary housing to eligible low income individuals and families.

The Authority has contracted with HTJD for annual modernization grants. These grants are used to provide modernization or management improvements for the Public Housing Program. During the period ending March 31, 2010, the Authority was administering Modernization grants. Award amounts are advanced by HUD for expenditures authorized by the specific grant. Details of grant amounts approved, advanced, and expended are presented in the Supplementary Data.

**16. SUBSEQUENT EVENT**

The Village has authorized a bond anticipation note in the amount of $2,000,000 for the financing of the costs of acquisition, construction and reconstruction of improvements to Village streets, parks, traffic signs, buildings, and storm and sanitary sewer systems.

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# COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

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# VILLAGE OF PORT CHESTER, NEW YORK
**Combining Balance Sheet—Nonmajor Governmental Funds**
**May 31, 2010**

| | Special Purpose Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 30,368 | $ 488,937 | $ 519,305 |
| Due from other funds | - | 463,036 | 463,036 |
| Total assets | $ 30,368 | $ 951,973 | $ 982,341 |
| **LIABILITIES AND FUND BALANCES (DEFICITS)** | | | |
| Liabilities: | | | |
| Accrued liabilities | $ - | $ 1,720 | $ 1,720 |
| Due to other funds | - | 3,338 | 3,338 |
| Total liabilities | - | 5,058 | 5,058 |
| Fund balances (deficits): | | | |
| Reserved for: | | | |
| Special purposes | 30,368 | - | 30,368 |
| Debt | - | 946,915 | 946,915 |
| Total fund balances | 30,368 | 946,915 | 977,283 |
| Total liabilities and fund balances | $ 30,368 | $ 951,973 | $ 982,341 |

## VILLAGE OF PORT CHESTER, NEW YORK

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds**
**Year Ended May 31, 2010**

| | Special Purpose Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Use of money and property | $ - | $ 17,458 | $ 17,458 |
| Miscellaneous | 12,100 | 21,260 | 33,360 |
| Total revenues | 12,100 | 38,718 | 50,818 |
| **EXPENDITURES** | | | |
| Current: | | | |
| Culture and recreation | 39,909 | - | 39,909 |
| Total expenditures | 39,909 | - | 39,909 |
| Excess (deficiency) of revenues over (under) expenditures | (27,809) | 38,718 | 10,909 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | - | 442,406 | 442,406 |
| Transfers out | - | (475,000) | (475,000) |
| Total other financing sources (uses) | - | (32,594) | (32,594) |
| Net change in fund balances | (27,809) | 6,124 | (21,685) |
| Fund balances—beginning | 58,177 | 940,791 | 998,968 |
| Fund balances—ending | $ 30,368 | $ 946,915 | $ 977,283 |

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# FEDERAL AWARDS

# VILLAGE OF PORT CHESTER, NEW YORK
## Schedule of Expenditures of Federal Awards
## Year Ended May 31, 2010

| Federal Grantor/Program Title | Federal CFDA Number | Federal Program Expenditures |
|---|---|---|
| **U.S. Department of Agriculture:** | | |
| Passed through Westchester County: | | |
| Supplemental Nutrition Assistance Program | 10.551 | $ 3,755 |
| **Total U.S. Department of Agriculture** | | 3,755 |
| **U.S. Department of Housing and Urban Development:** | | |
| Passed through Westchester County: | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | 349,127 |
| Direct programs: | | |
| Community Development Block Grants | | |
| Economic Development Initiative | 14.246 | 11,252 |
| Section 8 Housing Choice Vouchers | 14.871 | 2,776,879 |
| **Total U.S. Department of Housing and Urban Development** | | 3,137,258 |
| **U.S. Department of Justice—Bureau of Justice Assistance:** | | |
| Passed through New York State: | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 47,524 |
| **Total U.S. Department of Justice—Bureau of Justice Assistance** | | 47,524 |
| **U.S. Department of Health and Human Services:** | | |
| Passed through Westchester County: | | |
| Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers | 93.044 | 85,338 |
| Special Programs for the Aging—Title III, Part C—Nutrition Services | 93.045 | 28,390 |
| **Total U.S. Department of Health and Human Services** | | 113,728 |
| **U.S. Department of Homeland Security:** | | |
| Direct programs | | |
| Hazard Mitigation Grant | 97.039 | 7,058 |
| **Total U.S. Department of Homeland Security** | | 7,058 |
| Total expenditures of federal awards | | $ 3,309,323 |

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

## 1. BASIS OF PRESENTATION

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

## 2. BASIS OF ACCOUNTING

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

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

* * * * * *

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

*Certified Public Accountants*

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

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

We have audited the financial statements of the Village of Port Chester, New York (the "Village") as of and for the year ended May 31, 2010, and have issued our report thereon dated November 18, 2010. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Port Chester Housing Authority, as described in our report on the Village's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3 to be a significant deficiency in internal control.

**Compliance and Other Matters**

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

We noted certain matters that we have reported to the management of the Village in a separate letter dated November 18, 2010.

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

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

Drescher & Malecki LLP

November 18, 2010

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

*Certified Public Accountants*

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

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

**Compliance**

We have audited the compliance of the Village of Port Chester, New York (the "Village") with the types of compliance requirements described in the *U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2010. The Village's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

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

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended May 31, 2010. The results of our auditing procedures disclosed no instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133.

**Internal Control Over Compliance**

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

A deficiency in internal control over compliance when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Drescher & Malecki LLP

November 18, 2010

# VILLAGE OF PORT CHESTER, NY
## Schedule of Findings and Questioned Costs
## Year Ended June 30, 2010

### Part I. Summary of Auditors' Results

**Financial Statements**

| | | |
|---|---|---|
| Type of auditors' report issued:<br>* (which report refers to other auditors ). | Unqualified* | |

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| 4. Material weakness(es) identified? | | Yes | X | No |
| 5. Significant deficiency(ies) identified? | | Yes | X | None reported |
| Type of auditors' report issued on compliance for major programs: | Unqualified | | | |
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | | Yes | X | No |

7. The Authority's major programs were:

| Name of Federal Program or Cluster | CFDA Number |
|---|---|
| Community Development Block Grant/ Entitlement Grants | 14.218 |
| Section 8 Housing Choice Vouchers | 14.871 |

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 300,000

| | | | | |
|---|---|---|---|---|
| 9. Auditee qualified as low-risk auditee? | X | Yes | | No |

**Part II. Financial Statement Findings Section**

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

**Finding 2010-1—Cash**

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

*Condition* – There were several deficiencies regarding cash that comprise a material weakness. First, there is a lack of segregation of duties regarding the receipt of cash and the recording of deposits. Second, there is no evidence that bank accounts are reconciled or approved monthly by a person independent of cash receipts, general ledger, accounts receivable, or accounts payable functions. Third, procedures within the Department of Public Works ("DPW") surrounding cash receipts are not adequate.

*Effect* – The lack of segregation of duties surrounding cash, coupled by the absence of adequate bank reconciliation controls increases the risk of misstatement due to fraud or misappropriation of assets. The inadequate procedures surrounding cash receipts within the DPW increases the chances for miscalculations and/or misappropriation of cash.

*Cause* – The Village employee that receives cash also prepares deposits and performs the bank reconciliations. Further, bank reconciliations are performed monthly but there is no evidence of an independent sign off and/or approval. Finally, cash receipts are not all pre-numbered, and cash receipts from some Village departments are not recorded immediately upon receipt.

*Recommendation* – We recommend that the Village address each of the deficiencies regarding cash to mitigate the potential failure of the key internal controls.

*Management's Corrective Action Plan* – Subsequent to year-end, the Treasurer's Office has begun the independent review and approval of bank reconciliations. Additionally, management has begun reviewing the cash receipt processes within its departments to heighten its internal controls.

**Finding 2010-2—Journal Entries**

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

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

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

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

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

*Management's Corrective Action Plan* – The Village currently utilizes certain facets of a journal entry review, and will build upon these to create and adopt a formal policy.

***We consider the deficiencies presented below to comprise a significant deficiency in internal control.***

**Finding 2010-3—Capital Projects Deficit**

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

*Condition* – The Village had capital projects that were in a deficit position. Additionally, there were projects that appeared inactive and had old outstanding purchase orders.

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

*Cause* – Capital projects are not closely monitored and maintained by the Village.

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

*Management's Corrective Action Plan* – The Village has contracted assistance to review each project within the Capital Projects Fund.

**Part III.  Federal Award Findings and Questioned Costs Section**

No findings or questioned costs reported.

# VILLAGE OF PORT CHESTER, NY
## Schedule of Prior Audit Findings
## Year Ended May 31, 2010
## (Follow Up of May 31, 2009 Findings)

No findings or questioned costs reported for year ended May 31, 2009.

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