



**INCORPORATED  
VILLAGE OF PATCHOGUE**

**FINANCIAL STATEMENTS  
(REGULATORY BASIS) WITH  
INDEPENDENT AUDITOR'S REPORTS**

**May 31, 2017**

**INCORPORATED VILLAGE OF PATCHOGUE**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Incorporated Village of Patchogue  
Patchogue, New York

### Report on Financial Statements

We have audited the accompanying financial statements (regulatory basis) of the Incorporated Village of Patchogue, as of and for the year ended May 31, 2017, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, as described in Note 1, to meet the reporting requirements of New York State. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1, the financial statements are prepared by the Incorporated Village of Patchogue on the basis of the financial reporting provisions of the New York State Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the New York State Office of the State Comptroller.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Incorporated Village of Patchogue, as of May 31, 2017, and the respective changes in its financial position for the year then ended.

***Unmodified Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental funds, fiduciary fund, account group and discretely presented component unit of the Incorporated Village of Patchogue as of May 31, 2017, and the respective changes in financial position for the year then ended in accordance with the financial reporting provisions of the New York State Office of the State Comptroller as described in Note 1.

***Change in Accounting Principle***

As described in Note 2 to the financial statements, “Changes in Accounting Principles”, the Village has adopted the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, as of May 31, 2017. Our opinion is not modified with respect to this matter.

***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Incorporated Village of Patchogue’s basic financial statements. The other supplementary information on pages 24 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of the Incorporated Village of Patchogue’s internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Incorporated Village of Patchogue’s internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*

October 6, 2017

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Balance Sheet - All Fund Types and Account Groups**  
 May 31, 2017

	General	Sewer	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 4,781,140	\$ 1,075,379	\$	\$	\$ 34,410	\$ 5,890,929
Restricted		2,202,571			55,276	2,257,847
Receivables						
Tax sale certificates	53					53
Taxes receivable	35,165					35,165
Accounts receivable	25,222	2,634		107,904		135,760
Mortgage receivable	150,000					150,000
Due from other funds	1,200,572					1,200,572
Due from component unit	20,117					20,117
Due from state and federal				123,930		123,930
Due from other governments	39,830					39,830
<b>Total Assets</b>	<b>\$ 6,252,099</b>	<b>\$ 3,280,584</b>	<b>\$ -</b>	<b>\$ 231,834</b>	<b>\$ 89,686</b>	<b>\$ 9,854,203</b>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 217,223	\$ 95,076	\$	\$ 167,333	\$ 14,654	\$ 494,286
Accrued liabilities	173,901	14,638			1,793	190,332
Due to other funds				1,200,572		1,200,572
Due to employees' retirement system	112,350					112,350
Notes payable						
Bond anticipation note				400,000		400,000
Unearned credits						
Collections in advance	22,920					22,920
<b>Total Liabilities</b>	<b>526,394</b>	<b>109,714</b>	<b>-</b>	<b>1,767,905</b>	<b>16,447</b>	<b>2,420,460</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable and deferred revenues	1,014,620	107,608			14,437	1,136,665
<b>Total Deferred Inflows of Resources</b>	<b>1,014,620</b>	<b>107,608</b>	<b>-</b>	<b>-</b>	<b>14,437</b>	<b>1,136,665</b>
<b>FUND BALANCES</b>						
Nonspendable	150,000					150,000
Restricted:						
Special projects		2,202,571			5,762	2,208,333
Parks and conservation					49,514	49,514
Assigned:						
Appropriated fund balance	350,000					350,000
Designated for parking meter project	70,631					70,631
Unappropriated fund balance	114,090	860,691			3,526	978,307
Unassigned: Fund balance (deficit)	4,026,364			(1,536,071)		2,490,293
<b>Total Fund Balances (Deficit)</b>	<b>4,711,085</b>	<b>3,063,262</b>	<b>-</b>	<b>(1,536,071)</b>	<b>58,802</b>	<b>6,297,078</b>
<b>Total Liabilities, Deferred Inflows     of Resources and Fund Balance</b>	<b>\$ 6,252,099</b>	<b>\$ 3,280,584</b>	<b>\$ -</b>	<b>\$ 231,834</b>	<b>\$ 89,686</b>	<b>\$ 9,854,203</b>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Balance Sheet - All Fund Types and Account Groups (Continued)**  
 May 31, 2017

	Total Governmental Funds	Fiduciary Fund Agency	Account Groups		Total Village	Component Unit
			Non-Current Governmental Assets	Non-Current Governmental Liabilities		
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 5,890,929	\$ 122,740	\$	\$	\$ 6,013,669	\$ 329,919
Restricted	2,257,847				2,257,847	
Receivables						
Tax sale certificates	53				53	
Taxes receivable	35,165				35,165	
Accounts receivable	135,760				135,760	
Mortgage receivable	150,000				150,000	75,000
Due from other funds	1,200,572				1,200,572	
Due from component unit	20,117				20,117	
Due from state and federal	123,930				123,930	
Due from other governments	39,830				39,830	11,357
Service award program assets		995,016			995,016	
Capital assets			82,660,888		82,660,888	118,000
Provision to be made in future budgets				12,170,673	12,170,673	
<b>Total Assets</b>	<b>9,854,203</b>	<b>1,117,756</b>	<b>82,660,888</b>	<b>12,170,673</b>	<b>105,803,520</b>	<b>534,276</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pensions			945,429		945,429	
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 9,854,203</b>	<b>\$ 1,117,756</b>	<b>\$ 83,606,317</b>	<b>\$ 12,170,673</b>	<b>\$ 106,748,949</b>	<b>\$ 534,276</b>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 494,286	\$	\$	\$	494,286	\$
Accrued liabilities	190,332				190,332	2,157
Due to other funds	1,200,572				1,200,572	
Due to primary government					-	20,117
Due to employees' retirement system	112,350				112,350	
Compensated absences				1,121,062	1,121,062	
Other liabilities		1,117,756			1,117,756	
Notes payable						
Bond anticipation notes	400,000				400,000	
Unearned credits						
Collections in advance	22,920				22,920	
Installment purchase debt				95,071	95,071	
Bonds payable				9,145,000	9,145,000	
Net pension liability - proportionate share				1,570,232	1,570,232	
<b>Total Liabilities</b>	<b>2,420,460</b>	<b>1,117,756</b>	<b>-</b>	<b>11,931,365</b>	<b>15,469,581</b>	<b>22,274</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable and deferred revenues	1,136,665				1,136,665	
Pensions				239,308	239,308	
<b>Total Deferred Inflows of Resources</b>	<b>1,136,665</b>	<b>-</b>	<b>-</b>	<b>239,308</b>	<b>1,375,973</b>	<b>-</b>
<b>FUND BALANCES</b>						
Investment in non-current governmental assets			83,606,317		83,606,317	118,000
Fund balances:						
Nonspendable	150,000				150,000	75,000
Restricted:						
Special projects	2,208,333				2,208,333	
Parks and conservations	49,514				49,514	
Assigned:						
Appropriated fund balance	350,000				350,000	
Designated for parking meter project	70,631				70,631	
Unappropriated fund balance	978,307				978,307	
Unassigned: Fund balance	2,490,293				2,490,293	319,002
<b>Total Fund Balances</b>	<b>6,297,078</b>	<b>-</b>	<b>83,606,317</b>	<b>-</b>	<b>89,903,395</b>	<b>512,002</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 9,854,203</b>	<b>\$ 1,117,756</b>	<b>\$ 83,606,317</b>	<b>\$ 12,170,673</b>	<b>\$ 106,748,949</b>	<b>\$ 534,276</b>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - All Fund Types**  
For The Year Ended May 31, 2017

	General	Sewer	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 7,545,688	\$	\$	\$	\$ 160,563	\$ 7,706,251
Other tax items	44,877	1,360,942				1,405,819
Non-property tax items	502,192					502,192
Departmental income	3,378,956	270,717				3,649,673
Use of money and property	62,959	1,575			42	64,576
Licenses and permits	316,871	692,068				1,008,939
Fines and forfeitures	516,097					516,097
Sale of property and compensation for loss	28,055					28,055
Miscellaneous	63,634	24		1,140,994		1,204,652
State sources	246,806	18,099		1,978,321		2,243,226
Federal sources				588,031		588,031
<b>Total Revenues</b>	<b>12,706,135</b>	<b>2,343,425</b>	<b>-</b>	<b>3,707,346</b>	<b>160,605</b>	<b>18,917,511</b>
<b>EXPENDITURES</b>						
General government support	2,104,557	231,582		78,655	4,000	2,418,794
Public safety	2,244,281			209,950	156,487	2,610,718
Health	2,000					2,000
Transportation	1,482,728					1,482,728
Economic opportunity and development					732	732
Culture and recreation	682,008			1,652,653		2,334,661
Home and community services	1,345,319	901,920		1,498,642		3,745,881
Employee benefits	3,156,899	238,225			6,763	3,401,887
Debt service						
Principal	172,610		1,104,000			1,276,610
Interest	10,806		251,837			262,643
<b>Total Expenditures</b>	<b>11,201,208</b>	<b>1,371,727</b>	<b>1,355,837</b>	<b>3,439,900</b>	<b>167,982</b>	<b>17,536,654</b>
Excess (Deficiency) of Revenues Over Expenditures	1,504,927	971,698	(1,355,837)	267,446	(7,377)	1,380,857
<b>OTHER SOURCES AND USES</b>						
Operating transfers in			1,355,837			1,355,837
Operating transfers out	(1,199,638)	(156,199)				(1,355,837)
BAN redeemed				100,000		100,000
<b>Total Other Sources and Uses</b>	<b>(1,199,638)</b>	<b>(156,199)</b>	<b>1,355,837</b>	<b>100,000</b>	<b>-</b>	<b>100,000</b>
Net Change in Fund Balance	305,289	815,499	-	367,446	(7,377)	1,480,857
Fund Balance (Deficit) - Beginning of year	4,405,796	2,247,763		(1,903,517)	66,179	4,816,221
Fund Balance (Deficit) - End of year	<u>\$ 4,711,085</u>	<u>\$ 3,063,262</u>	<u>\$ -</u>	<u>\$ (1,536,071)</u>	<u>\$ 58,802</u>	<u>\$ 6,297,078</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - All Fund Types (Continued)**  
For The Year Ended May 31, 2017

	<u>Total Governmental Funds</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Real property taxes	\$ 7,706,251	\$
Other tax items	1,405,819	
Non-property tax items	502,192	
Departmental income	3,649,673	
Use of money and property	64,576	53
Licenses and permits	1,008,939	
Fines and forfeitures	516,097	
Sale of property and compensation for loss	28,055	
Miscellaneous	1,204,652	8,124
State sources	2,243,226	
Federal sources	588,031	2,428,048
	<u>18,917,511</u>	<u>2,436,225</u>
<b>Total Revenues</b>		
<b>EXPENDITURES</b>		
General government support	2,418,794	
Public safety	2,610,718	
Health	2,000	
Transportation	1,482,728	
Economic opportunity and development	732	
Culture and recreation	2,334,661	
Home and community services	3,745,881	2,415,146
Employee benefits	3,401,887	
Debt service		
Principal	1,276,610	
Interest	262,643	
	<u>17,536,654</u>	<u>2,415,146</u>
<b>Total Expenditures</b>		
Excess (Deficiency) of Revenues Over Expenditures	<u>1,380,857</u>	<u>21,079</u>
<b>OTHER SOURCES AND USES</b>		
Operating transfers in	1,355,837	
Operating transfers out	(1,355,837)	
BAN redeemed	100,000	
	<u>100,000</u>	<u>-</u>
<b>Total Other Sources and Uses</b>		
Net Change in Fund Balance	1,480,857	21,079
Fund Balance - Beginning of year	<u>4,816,221</u>	<u>490,923</u>
Fund Balance - End of year	<u>\$ 6,297,078</u>	<u>\$ 512,002</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Incorporated Village of Patchogue (Village), as of and for the year ended May 31, 2017, have been prepared in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing GAAP for governmental units. The financial statements of the Village have been prepared using only the modified accrual basis of accounting. This method differs from GAAP, which requires the preparation of additional financial statements using the accrual basis of accounting. The accrual basis financial statements require the capitalization and depreciation of property and equipment and the recording of long-term liabilities. Under the modified accrual basis of accounting, property and equipment are recorded as an expenditure when purchased and the proceeds of long-term debt are reported as other financing sources and the payment of long-term debt and other long-term liabilities are recognized as expenditures to the extent that the liabilities mature during the year. In addition, GAAP requires the financial statements to be prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB 34 financial statements require the presentation of government-wide financial statements, management's discussion and analysis and additional required supplementary information. The accounting practices used to prepare these financial statements do not require compliance with GASB 34.

The significant accounting policies of the Village are described below:

a) **Financial Reporting Entity**

The Village of Patchogue, which was incorporated in 1893, is governed by Charter of the State of New York, the Village law and other general Laws of the State of New York and various local laws and ordinances. The Village is governed by the Mayor and the Board of Trustees, which is the legislative body responsible for the overall operation of the Village consisting of six members. The Mayor serves as chief executive officer and the Treasurer serves as chief fiscal officer of the Village.

The following basic services are provided: garbage collection, highway maintenance, sewage treatment in the central business district, ambulance service, several parks with organized recreational activities, programs for the aged and snow removal.

The financial reporting entity consists of (a) the primary government, which is the Village, (b) organizations, which are determined to be includable in the financial reporting entity based on legal standing, fiscal dependence and financial accountability, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB. Based on the application of these criteria, the following entity is determined to be a component unit of the Village and is presented discretely in a separate column in the financial statements to emphasize it is legally separate from the primary government.

The Village of Patchogue Community Development Agency (Agency) is a public benefit corporation created by a special act of the State Legislature in 1980 pursuant to Article 15-A of the General Municipal Law. Its purpose is to promote the sound growth and development of the Village of Patchogue through the correction of substandard, unsanitary, blighted, deteriorated or deteriorating conditions, factors and characteristics, by the clearance, replanning, reconstruction, redevelopment, subsidization, rehabilitation, restoration or conservation of such areas, the undertaking of public and private improvement of housing programs related thereto and the encouragement of participation in these programs by private enterprise.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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Members of the Agency are appointed by the Village's governing body. The Agency is delegated the responsibility, fiscal and otherwise, for administering federal, state or other grants for which the Village of Patchogue is the grantee or sub-grantee. The Agency operates, as delegated by the Village Board of Trustees and the Section 8 Existing Housing Program. The Program utilizes its annual Department of Housing and Urban Development allotment of funding for the purpose of subsidizing the rents of lower income Village residents and for program administration. The Agency is used to account for community development block grants received from the U.S. Department of Housing and Urban Development.

b) Basis of Presentation

The accounts of the Village are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. These funds and account groups are based upon the requirements of GAAP for local governmental units as prescribed by the GASB as well as the financial reporting provisions of the New York State Office of the State Comptroller. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are grouped in the financial statements in the following fund types and account groups:

i) Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon the determination of financial position and changes in financial position. The following are the Village's governmental fund types:

- A. General Fund - the general fund is the principal operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.
- B. Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Village has the following special revenue funds:

Sewer Fund – used to account for transactions of the Village sewer system.

Business Improvement District Fund – used to account for transactions of the Village Business Improvement District including, but not limited to, administration, district operations, public relations and implementation of all eligible activities and district improvement in accordance with General Municipal Law.

Parks and Conservation Fund – is used to account for special assessments from subdivisions that are specifically restricted for the improvement and conservation of parklands within the Village.

The Business Improvement District Fund and the Parks and Conservation Fund are reflected as other governmental funds in the financial statements.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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- C. Debt Service Fund – used to account for current payments of principal and interest on general obligation long-term debt.
- D. Capital Projects Fund - the capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

ii) Fiduciary Fund Types

Fiduciary funds consisting of agency funds are used to account for assets held by the Village in a trustee or custodial capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

iii) Account Groups

Account groups are used to establish accounting control and accountability for the Village's non-current governmental assets and non-current governmental liabilities. The account groups are not funds. They are accounting entities, not fiscal entities, and are concerned only with the measurement of financial position and not with the results of operations. The Village utilizes the following account groups:

Non-Current Governmental Assets - is used to account for land, construction in progress, buildings and improvements, and machinery and equipment of the Village, as well deferred outflows of resources related to pensions.

Non-Current Governmental Liabilities - is used to account for long-term and other obligations of the Village including bonds, most obligations under lease/purchase and other financing arrangements, compensated absences, and other long-term obligation, as well as deferred inflows of resources related to pensions.

iv) Component Unit Funds

Community Development Agency – as described above.

c) Measurement Focus and Basis of Accounting

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on debt, claims and judgments, compensated absences, and pension costs, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

e) Property Taxes

Real property taxes are levied no later than May 15<sup>th</sup> and become a lien on June 1<sup>st</sup>. The Village collects its own taxes. Taxes are collected during the month of June without penalty. A 5% penalty is assessed on taxes paid after July 1, and an additional 1% is assessed each month on taxes paid after July. Unpaid Village taxes are collected through tax lien sales.

f) Interfund Transactions

The operations of the Village include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The Village typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include transfers to provide financing or other services.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables are netted on the accompanying Balance Sheet when it is the Village's practice to settle these amounts at a net balance based upon the right of legal offset.

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

g) Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments having maturities of three months or less are considered as cash equivalents.

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves.

h) Receivables

Receivables are shown net of allowance for uncollectible amounts, if any. However, no allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

i) Capital Assets

Capital assets purchased are recorded at cost as expenditures in the respective funds at time of purchase and removed when the asset is sold or retired. Such assets are accounted for in the non-current governmental assets account group. Donated assets are reported at acquisition value at the date of donation.

No depreciation has been provided on capital assets.

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,000	20-50 years
Land Improvements	1,000	20-50 years
Infrastructure	1,000	20 years
Furniture, Fixtures and Equipment	1,000	5-20 years

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
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j) Deferred Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflow of resources reported in the non-current governmental assets account group relates to pensions and consists of the Village's proportionate share of changes in the collective net pension liability not included in collective pension expense.

k) Collections in Advance

Collections in advance arise when resources are received by the Village before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures or when charges for services monies are received in advance from payers prior to the services being rendered by the Village. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the Village has legal claim to the resources.

l) Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The Village has three items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. In subsequent periods, when the availability criterion is met, unavailable revenues are classified as revenues. The second item is property taxes and assessments received before the period for which they are levied or assessed. They are recognized as revenue in the year for which they are levied or assessed, which will be the subsequent year. The third item is related to pensions reported in the non-current governmental liabilities account group and consists of the Village's proportionate share of changes in the collective net pension liability not included in collective pension expense.

m) Employee Benefits – Compensated Absences

Compensated absences consists of unpaid accumulated vacation time and sick leave.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods. Employees are compensated for unused accumulated vacation leave through paid time off or cash payment upon retirement, termination or death.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation, or death, employees may contractually receive a payment based on unused accumulated sick leave.

Pursuant to a resolution of the governing board and contractual agreements, the Village's employees are entitled to accrue a maximum of 300 days of sick leave, 4 to 6 weeks or more of vacation leave, and 4 to 6 days of personal leave. An individual who leaves the employ of the Village is entitled to be paid for unused vacation leave.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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Employees upon retirement or separation (except for discharge for cause), shall be paid for unused sick leave, provided they have accrued a minimum of thirty (30) days, as follows: 60% up to 50 days, 70% from 51 days to 75 days, 80% from 76 days to 100 days, 90% from 101 days to 125 days, and 100% from 126 days to 200 days.

The liability for compensated absences has been calculated using the vesting method and an accrual for that liability is included in the non-current governmental liabilities account group. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements, a liability is reported in the general fund only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the Village by May 31<sup>st</sup>.

n) Other Benefits

Eligible Village employees participate in the New York State and Local Employees' Retirement System.

Village employees may choose to participate in the Village's elective deferral compensation plan established under Internal Revenue Code Section 457.

The Village provides health insurance coverage for active employees pursuant to collective bargaining agreements and individual employment contracts.

In addition to providing pension benefits, the Village provides health insurance coverage and survivor benefits for certain retired employees and their survivors. Collective bargaining agreements and individual employment contracts determine if certain Village employees are eligible for these benefits if they reach normal retirement age while working for the Village. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Village recognizes the cost of providing benefits by recording its share of insurance premiums amounting to \$413,890 for 36 recipients as an expenditure for the fiscal year ended May 31, 2017. Of the 36 recipients, eight are surviving spouses who paid 25% or \$20,985 and two are retirees paying 50% or \$16,204.

In addition, the Village reimburses those retirees and spouses who are 65 years or older and have Medicare benefits. The amount of this expense for 29 retirees and 18 spouses was \$57,897 for the fiscal year ended May 31, 2017.

o) Short-Term Debt

The Village may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds. State law requires the BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

p) Fund Balance

The governmental fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used as follows:

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
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*Nonspendable* – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including the long-term portion of the mortgage receivable.

*Restricted* – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grants, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. The Village has established the following restricted fund balances:

Reserve for Special Projects

This represents monies to be used for future sewer upgrades and capital projects. The reserve is accounted for in the sewer and business improvement district funds.

Reserve for Parks and Conservation

This represents fees received from landowners that have received approval for land subdivision. These fees will be used for future park and conservation projects. The reserve is accounted for in the Parks and Conservation fund.

*Assigned* – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the Village's Board of Trustees. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

*Unassigned* – Represents the residual classification for the Village's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used only to report a deficit fund balance resulting from the overspending of available resources.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose either by voter approval if required by law or by formal action of the Board of Trustees if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Trustees.

The Board of Trustees shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or Board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

**2. CHANGES IN ACCOUNTING PRINCIPLES**

For the fiscal year ended May 31, 2017, the Village implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which requires the Village to disclose information about tax abatement agreements impacting real property tax revenue.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

The Village's budget policies are as follows:

The Village's administration submits a tentative budget to the Board of Trustees. The tentative budget includes proposed expenditures and the proposed means of financing for the general fund.

A public hearing is held on the tentative budget by April 15<sup>th</sup>. After completion of the budget hearing, the Board of Trustees may further change the tentative budget. Such budget, as so revised, shall be adopted by resolution no later than May 1<sup>st</sup>.

All subsequent modifications of the budget are recorded at the program line item level, and must be approved by the Board of Trustees.

Appropriations are established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the current year are increased by the amount of the encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Trustees as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year, the Village had \$84,144 in supplemental appropriations funded by unassigned fund balance.

Budgets are adopted on the modified accrual basis of accounting consistent with GAAP.

Budgets are established and used for individual capital projects based on authorized funding. The maximum project amount authorized is based upon the estimated cost of the project. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of assigned fund balance, unless classified as restricted, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**C. Capital Projects Fund**

The capital projects fund had a deficit fund balance of \$1,536,071 at May 31, 2017. The deficit will be funded when the Village obtains permanent financing and through appropriations from future budgets.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The Village's investment policies are governed by state statutes and Village policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United State and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the Village's may be unable to recover deposits or recover collateral securities that are in possession of an outside agency. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the Village's name.

The Village's aggregate bank balances were covered by FDIC insurance or fully collateralized by securities pledged on the Village's behalf at year end.

The Village did not have any investments at year-end or during the year. Consequently, the Village was not exposed to any material interest rate risk or foreign currency risk.

**5. MORTGAGE RECEIVABLE**

The Village is holding a subordinate mortgage in the amount of \$150,000, which is due on December 10, 2039 and bears no interest. The subordinate mortgage is secured by an interest in real property. The Borrower is not required to make principal or interest payments except in the event of default. On the maturity date, the entire unpaid principal balance shall be due and payable.

The Community Development Agency, a component unit of the Village, has a mortgagee to an individual residing in the Village, in the amount of \$75,000 and bears no interest. Beginning December 2028, the mortgage is to be forgiven in 10% increments for each year that the individual has occupied the residence. No amounts are due on the mortgage, unless the individual sells, rents, or otherwise fails to occupy the property, or other defaults exist under the agreement.

**6. INTERFUND TRANSACTIONS**

Interfund balances at May 31, 2017, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,220,689	\$	\$	\$ 1,199,638
Sewer Fund				156,199
Debt Service Fund			1,355,837	
Capital Projects Fund		1,200,572		
Community Development Agency		20,117		
Total	<u>\$ 1,220,689</u>	<u>\$ 1,220,689</u>	<u>\$ 1,355,837</u>	<u>\$ 1,355,837</u>

The transfers from the general fund and sewer fund to the debt service fund were to provide funding for debt service principal and interest payments.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**7. CAPITAL ASSETS**

A summary of changes in the Village's capital assets is as follows:

	Balance May 31, 2016	Additions	Reductions	Balance May 31, 2017
Land	\$ 4,582,884	\$ 487,588	\$	\$ 5,070,472
Buildings	24,231,867	16,807		24,248,674
Land improvements	1,291,590	417,689	(643,680)	1,065,599
Infrastructure	44,212,340	3,372,002		47,584,342
Furniture, Fixtures and Equipment	4,747,175	69,224	(124,598)	4,691,801
	<u>\$ 79,065,856</u>	<u>\$ 4,363,310</u>	<u>\$ (768,278)</u>	<u>\$ 82,660,888</u>

A summary of changes in the component unit's capital assets is as follows:

	Balance May 31, 2016	Additions	Reductions	Balance May 31, 2017
Land	<u>\$ 118,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,000</u>

**8. SHORT-TERM DEBT**

Bond anticipation note activity for the year is summarized below:

	Maturity	Stated Interest Rate	Balance May 30, 2016	Issued	Redeemed	Balance May 31, 2017
BAN	3/22/17	1.05%	\$ 500,000	\$	\$ (500,000)	\$
BAN	3/21/18	2.00%	-	400,000	-	400,000
			<u>\$ 500,000</u>	<u>\$ 400,000</u>	<u>\$ (500,000)</u>	<u>\$ 400,000</u>

Interest on short-term debt for the year was \$5,250.

**9. LONG-TERM LIABILITIES**

Long-term liability balances and activity for the year, excluding pension costs, are summarized below:

	Balance May 31, 2016	Additions	Reductions	Balance May 31, 2017
Long-term debt:				
Bonds payable	\$ 10,369,000	\$	\$ 1,224,000	\$ 9,145,000
Installment purchase debt	167,682		72,611	95,071
Other long-term liabilities				
Compensated absences	1,062,031	127,101	(68,070)	1,121,062
	<u>\$ 11,598,713</u>	<u>\$ 127,101</u>	<u>\$ 1,228,541</u>	<u>\$ 10,361,133</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
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Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at May 31, 2017
Serial bond	12/16/2008	12/15/2018	3.00%	\$ 100,000
Serial bond	5/29/2012	6/15/2032	2.50%	1,000,000
NY Environmental Corp. State revenue bonds	6/7/2012	5/1/2042	3.66%	3,630,000
Serial bond	12/15/2015	7/15/2030	2.00-2.75%	2,820,000
Serial bond - refunding	2/5/2016	7/15/2021	2.00-5.00%	1,595,000
				<u>\$ 9,145,000</u>

The following is a summary of maturing debt service requirements for the bonds:

Fiscal Year Ending May 31,	Principal	Interest	Total
2018	\$ 875,000	\$ 222,620	\$ 1,097,620
2019	825,000	195,542	1,020,542
2020	795,000	168,557	963,557
2021	800,000	143,198	943,198
2022	580,000	121,976	701,976
2023 - 2027	1,845,000	478,420	2,323,420
2028 - 2032	1,680,000	284,820	1,964,820
2033 - 2037	860,000	145,490	1,005,490
2038 - 2042	885,000	57,418	942,418
Total	<u>\$ 9,145,000</u>	<u>\$ 1,818,041</u>	<u>\$ 10,963,041</u>

During the year ended May 31, 2017, the Village had a \$120,000 principal payment for the NY Environmental Corp. State Revenue Bond, which was forgiven and was not required to be paid back by the Village. The general fund and debt service fund have typically been used to liquidate long-term liabilities.

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at May 31, 2017
Parking meters	8/15/2013	8/15/2018	4.16%	<u>\$ 95,071</u>

Fiscal Year Ending May 31,	Principal	Interest	Total
2018	\$ 75,663	\$ 2,502	\$ 78,165
2019	19,408	134	19,542
Total	<u>\$ 95,071</u>	<u>\$ 2,636</u>	<u>\$ 97,707</u>

Interest expense on long-term debt at May 31, 2017 was \$257,393.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**10. PENSION PLANS – NEW YORK STATE**

**A. Plan Description**

The Village elected to participate in the New York State and Local Employees' Retirement System (ERS). This system is a cost-sharing, multiple-employer, defined benefit pension plan. The system provides retirement, disability withdrawal and death benefits to plan members and beneficiaries related to years of service and final average salary.

**B. Provisions and Administration**

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the fund and is the administrative head of the ERS. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Village also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found on the NYS Comptrollers' website at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

**C. Funding Policy**

Plan members who joined the system before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31<sup>st</sup>, and employer contributions are either paid by the prior December 15<sup>th</sup> less a 1% discount or by the prior February 1<sup>st</sup>. The Village's average contribution rate was 15.02% of covered payroll for the ERS' fiscal year ended March 31, 2017.

The Village's share of the required contributions, based on covered payroll paid for the Village's year ended May 31<sup>st</sup>, for the current year and two preceding years was:

Year	ERS
2017	\$ 651,793
2016	759,352
2015	822,989

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At May 31, 2017, the Village reported the following liability for its proportionate share of the net pension liability for the ERS in the non-current governmental liabilities account group. The net pension liability was measured as of March 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Village's proportion of the net pension liability was based on a projection of the Village's long-term share of contributions to the ERS relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS in reports provided to the Village.

Measurement date	March 31, 2017
Village's proportionate share of the net pension liability	\$ 1,570,232
Village's portion of the Plan's total net pension liability	0.0167113%
Change in proportion since the prior measurement date	0.0000264

The Village reported deferred outflows of resources and deferred inflows of resources related to pensions in the non-current governmental assets and liabilities account groups from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 39,349	\$ 238,449
Changes in assumptions	536,449	
Net difference between projected and actual earnings on pension plan investments	313,639	
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	<u>55,992</u>	<u>859</u>
Total	<u>\$ 945,429</u>	<u>\$ 239,308</u>

Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 314,882
2019	314,882
2020	284,995
2021	<u>(208,638)</u>
	<u>\$ 706,121</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Measurement date	March 31, 2017
Actuarial valuation date	April 1, 2016
Inflation	2.5%
Salary increases	3.8%
Investment rate of return (net of investment expense, including inflation)	7.0%
Cost of living adjustments	1.3%

Annuitant mortality rates are based on experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class, as well as historical investment data and plan performance.

The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized below:

	ERS	
	Target Allocation	Long-term Expected Rate of Return
Measurement date		March 31, 2017
Asset type		
Domestic equity	36.0%	4.55%
International equity	14.0%	6.35%
Real estate	10.0%	5.80%
Alternative investments	18.0%	4.00-7.75%
Bonds and mortgages	17.0%	1.31%
Cash	1.0%	(0.25)%
Inflation indexed bonds	4.0%	1.50%
	100.0%	

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
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Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Village's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Village's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
Village's proportionate share of the net pension asset (liability)	\$ (5,015,009)	\$ (1,570,232)	\$ 1,342,321

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of the measurement date were as follows:

	<i>(Dollars in Thousands)</i>
Measurement date	March 31, 2017
Employers' total pension liability	\$ (177,400,586)
Plan fiduciary net position	168,004,363
Employers' net pension liability	\$ (9,396,223)
Ratio of plan fiduciary net position to the employers' total pension liability	94.70%

Payables to the Pension Plan

Employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of May 31, 2017, represent the projected employer contribution for the period of April 1, 2017 through May 31, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of May 31, 2017 amounted to \$112,350 of employer contributions. Employee contributions are remitted monthly.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**11. PENSION PLAN - DEFERRED COMPENSATION PLAN**

The Village has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The Village makes no contributions into this Plan. The amount deferred by eligible employees for the year ended May 31, 2017 totaled \$80,169.

**12. SERVICE AWARD PROGRAM FOR THE PATCHOGUE FIRE DEPARTMENT**

Effective January 1, 1991, the Village established a Service Award Program (the "Program") for the Patchogue Fire Department. Each active volunteer fire fighter will be included as a participant in the Program on the first January 1 following the completion of one year of service, provided the fire fighter has attained age 18. A year of service is credited for each program year in which the participant compiles at least 50 points. Points are awarded in accordance with the system adopted by the Patchogue Fire Department. The monthly accrued service award, as of any date of determination, is \$20 per month multiplied by years of service up to a maximum of 40 years, including up to 5 years of service prior to January 1, 1991.

No contributions were made to the Service Award Program as, effective January 1, 1999, the Fire Department became a separate taxing authority and is no longer a part of the Village. The Village has not had an actuarial valuation since then. The Village is responsible for those volunteer fire fighters who have vested as of December 31, 1998. The balance of the plan's assets, as of May 31, 2017, is \$995,016, which is accounted for in the Village's Trust & Agency fund.

**13. ASSIGNED APPROPRIATED FUND BALANCE**

The amount of \$350,000 has been appropriated to reduce taxes for the year ending May 31, 2018.

**14. RISK FINANCING AND RELATED INSURANCE**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**15. TAX ABATEMENTS**

The Village of Patchogue, enters into various property tax abatement programs for the purpose of economic development. The Village's property tax revenue was reduced \$136,728. The Village received payment in lieu of taxes (PILOT) payments totaling \$41,767.

**16. COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The Village has received grants which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds. Based on past audits, the Village believes disallowances, if any, would be immaterial.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**B. Certiorari Proceedings**

From time to time, the Village is involved in certiorari proceedings under which taxpayers seek reduction in the assessed value of property upon which taxes are measured. A reduction in assessed valuation may result in a refund of real property taxes previously paid by the claimant. It is not possible to estimate the amount of refunds, if any, that the Village may be required to make for taxes collected through May 31, 2017, which could affect future operating budgets of the Village.

**C. Litigation**

The Village is involved in lawsuits arising from the normal conduct of its affairs. The Village believes that the outcome of any matters will not have a material effect on these financial statements.

**D. Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At May 31, 2017, the Village encumbered the following amounts:

Assigned: Unappropriated fund balance	
General Fund	
General support	\$ 15,990
Public safety	1,857
Transportation	84,807
Culture and recreation	1,070
Home and community services	<u>10,366</u>
	114,090
 Sewer Fund	 102,149
 Capital Projects Fund	 <u>913,385</u>
	<u>\$ 1,129,624</u>

**17. SUBSEQUENT EVENTS**

The Village has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements.

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Real Property Taxes				
Real property taxes	\$ 7,555,247	\$ 7,552,309	\$ 7,545,688	\$ (6,621)
Total Real Property Taxes	7,555,247	7,552,309	7,545,688	(6,621)
Other Real Property Tax Items				
Interest and penalties	39,000	39,000	44,877	5,877
Total Other Real Property Tax Items	39,000	39,000	44,877	5,877
Non-Property Tax Items				
Utilities gross receipts tax	218,000	218,000	200,958	(17,042)
Franchise fees	235,000	235,000	288,771	53,771
Non-property tax, other	12,000	12,000	12,463	463
Total Non-Property Tax Items	465,000	465,000	502,192	37,192
Departmental Income				
Charges for tax redemption	500	500	702	202
Treasurer & Clerk fees	4,200	4,200	5,439	1,239
Personnel fees	4,000	4,000	6,020	2,020
Other departmental income	98,932	98,932	164,267	65,335
Safety inspection fees	100,000	100,000	109,135	9,135
Other public safety departmental income	261,690	261,690	262,830	1,140
Public works charges	88,000	88,000	123,085	35,085
Parking meter fees	325,000	325,000	447,679	122,679
Park and recreational charges	38,500	38,500	40,015	1,515
Special recreational facility charges	126,000	126,000	144,430	18,430
Zoning fees	7,000	7,000	7,135	135
Planning board fees	16,000	16,000	24,255	8,255
Refuse and garbage charges	2,031,109	2,043,564	2,043,964	400
Total Departmental Income	3,100,931	3,113,386	3,378,956	265,570
Use of Money and Property				
Interest and earnings	5,000	5,000	3,969	(1,031)
Rental of real property	110,250	110,250	58,990	(51,260)
Total Use of Money and Property	115,250	115,250	62,959	(52,291)
Licenses and Permits				
Licenses	25,100	25,100	36,610	11,510
Permits	560,500	560,500	280,261	(280,239)
Total Licenses and Permits	585,600	585,600	316,871	(268,729)
Fines and Forfeitures				
Fines and forfeitures	550,000	550,000	516,097	(33,903)
Total Fines and Forfeitures	550,000	550,000	516,097	(33,903)
Sale of Property and Compensation for Loss				
Minor sales	2,000	2,000	5,271	3,271
Sales, other	400	400	2,073	1,673
Insurance recoveries			20,711	20,711
Total Sale of Property and Compensation for Loss	2,400	2,400	28,055	25,655
Miscellaneous				
Refund of prior year's expenditures		10,000	51,077	41,077
Other unclassified	5,000	5,000	12,557	7,557
Total Miscellaneous	5,000	15,000	63,634	48,634

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES (Continued)</b>				
State Aid				
Revenue sharing	\$ 105,000	\$ 105,000	\$ 105,371	\$ 371
Mortgage tax	100,000	100,000	141,435	41,435
Total State Aid	205,000	205,000	246,806	41,806
Total Revenues	12,623,428	12,642,945	12,706,135	\$ 63,190
<b>APPROPRIATED FUND BALANCE</b>				
Prior Years' Surplus	650,000	650,000		
Prior Year's Encumbrances		64,627		
Total Appropriated Fund Balance	650,000	714,627		
Total Revenues and Appropriated Fund Balance	\$ 13,273,428	\$ 13,357,572		

**Note to Other Supplementary Information**

**Budget Basis of Accounting**

Budgets are adopted on the modified accrual basis of accounting

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>					
General Government Support					
Legislative board					
Personal services	\$ 81,000	\$ 81,000	\$ 81,000	\$	\$ -
Contractual services	1,000	1,000	855		145
Village justice court					
Personal services	191,475	191,475	178,919		12,556
Equipment	1,000	2,400	1,358		1,042
Contractual services	52,500	50,600	42,083		8,517
Traffic violations					
Personal services	61,741	61,741	59,423		2,318
Mayor					
Personal services	38,400	38,400	38,400		-
Contractual services	5,000	5,375	5,014		361
Auditor					
Contractual services	24,000	36,715	18,650	13,090	4,975
Treasurer					
Personal services	211,796	213,196	213,108		88
Equipment	1,500	1,500	1,464		36
Contractual services	8,800	7,400	4,672		2,728
Assessment					
Personal services	66,690	69,790	69,605		185
Equipment	300	500	441		59
Contractual services	10,000	8,500	7,475		1,025
Tax advertising expense					
Contractual services	600	700	694		6
Expense on Property Acquired for Taxes					
Contractual services		5,400	5,339		61
Fiscal Agent Fees					
Contractual services	1,000	3,800	126		3,674
Clerk and staff					
Personal services	249,397	246,197	237,290		8,907
Equipment	2,500	2,300	1,866		434
Contractual services	151,500	159,037	136,497		22,540
Law					
Contractual services	141,200	152,200	152,144		56
Engineer					
Contractual services	165,000	204,025	43,461	2,900	157,664
Buildings - village hall					
Personal services	67,729	68,729	66,508		2,221
Equipment	5,000	15,000	11,283		3,717
Contractual services	95,575	94,575	73,600		20,975
Central garage					
Personal services	147,362	148,962	148,475		487
Equipment	10,000	5,000	3,578		1,422
Contractual services	312,250	237,650	205,477		32,173
Unallocated insurance					
Contractual services	247,500	272,500	271,120		1,380
Municipal association dues					
Contractual services	5,087	5,087	5,087		-
Refund of taxes					
Contractual services	100,000	2,600	1,159		1,441
Payment of MTA payroll tax					
Contractual services	18,000	18,400	18,386		14
Contingent account					
Contractual services	100,000	362			362
Total General Government Support	<u>2,574,902</u>	<u>2,412,116</u>	<u>2,104,557</u>	<u>15,990</u>	<u>291,569</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>EXPENDITURES (Continued)</b>					
Public Safety					
Safety administration					
Personal services	\$ 271,813	\$ 260,813	\$ 251,895	\$	\$ 8,918
Equipment	500	500	-		500
Contractual services	12,525	12,525	11,750		775
Traffic					
Contractual services	45,000	70,000	63,194		6,806
Parking					
Personal services	60,175	60,675	60,514		161
Contractual services	375	375	375		-
Safety inspections					
Personal services	1,137,562	1,123,847	1,077,542		46,305
Equipment	4,000	59,800	59,624		176
Contractual services	87,825	101,065	84,087	1,857	15,121
Miscellaneous public safety					
Contractual services	635,300	635,300	635,300		-
Total Public Safety	<u>2,255,075</u>	<u>2,324,900</u>	<u>2,244,281</u>	<u>1,857</u>	<u>78,762</u>
Health					
Registrar of vital statistics					
Personal services	2,000	2,000	2,000		-
Total Health	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>
Transportation					
Street administration					
Personal services	874,385	849,085	811,793		37,292
Equipment	15,000	67,000	2,529	63,651	820
Contractual services	200,875	247,675	213,784	21,156	12,735
Snow removal					
Personal services	75,000	92,000	87,420		4,580
Equipment	5,000	6,000	5,479		521
Contractual services	71,000	53,000	39,031		13,969
Street lighting					
Personal services	22,000	19,000	1,676		17,324
Contractual services	247,500	247,500	163,498		84,002
Off street parking					
Contractual services	35,500	159,550	157,518		2,032
Total Transportation	<u>1,546,260</u>	<u>1,740,810</u>	<u>1,482,728</u>	<u>84,807</u>	<u>173,275</u>
Culture and Recreation					
Recreational administration					
Personal services	59,877	76,877	75,107		1,770
Contractual services	4,450	2,450	550		1,900
Parks					
Personal services	235,891	243,191	242,929		262
Equipment	15,000	8,700	3,713		4,987
Contractual services	94,550	94,550	69,832	900	23,818

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>EXPENDITURES (Continued)</b>					
Playground and recreation centers					
Personal services	\$ 64,304	\$ 62,704	\$ 61,871	\$	\$ 833
Equipment	2,000	700	-		700
Contractual services	36,000	43,600	40,305		3,295
Marina & dock expense					
Personal services	11,000	6,200	2,575		3,625
Contractual services	8,000	12,800	11,198	170	1,432
Special recreational facility - pool					
Personal services	60,925	57,325	57,076		249
Equipment	4,000	12,500	12,185		315
Contractual services	54,800	46,900	40,139		6,761
Band concerts					
Personal services	600		-		-
Contractual services	27,650	22,650	16,478		6,172
Youth programs					
Personal services	32,000	30,500	24,344		6,156
Equipment	300	300	-		300
Contractual services	13,200	14,700	12,831		1,869
Historian					
Contractual services	75	75	-		75
Celebrations					
Contractual services	5,000	6,000	5,939		61
Adult recreation					
Personal services	7,500	3,400	1,701		1,699
Equipment	200	200	-		200
Contractual services	4,400	4,400	3,235		1,165
Total Culture and Recreation	<u>741,722</u>	<u>750,722</u>	<u>682,008</u>	<u>1,070</u>	<u>67,644</u>
<b>Home and Community Services</b>					
Zoning board of appeals					
Personal services	11,000	11,800	11,750		50
Contractual services	13,900	17,120	16,407		713
Planning board					
Personal services	22,000	21,960	18,938		3,022
Contractual services	18,100	18,120	15,583	2,331	206
Storm sewers					
Contractual services	32,500	58,800	53,982		4,818
Refuse					
Personal services	690,008	636,763	622,325		14,438
Equipment		10,000	9,190		810
Contractual services	519,625	602,025	516,446	8,035	77,544
Street cleaning					
Personal services	75,263	77,463	74,227		3,236
Contractual services	10,000	10,000	6,471		3,529
Total Home and Community Services	<u>1,392,396</u>	<u>1,464,051</u>	<u>1,345,319</u>	<u>10,366</u>	<u>108,366</u>

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended May 31, 2017

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>EXPENDITURES (Continued)</b>					
Employee Benefits					
State employee retirement	\$ 661,635	\$ 590,035	\$ 584,583	\$	\$ 5,452
Local pension fund	136,000	135,000	134,910		90
Social security and Medicare	428,119	408,120	365,140		42,980
Workers compensation	603,000	592,000	527,181		64,819
Unemployment insurance	10,000	8,700	3,177		5,523
Disability insurance	100	100	-		100
Hospital and medical insurance	1,488,780	1,477,580	1,473,838		3,742
Other benefits	28,800	68,100	68,070		30
Total Employee Benefits	<u>3,356,434</u>	<u>3,279,635</u>	<u>3,156,899</u>	<u>-</u>	<u>122,736</u>
Debt Services					
Principal	1,221,350	172,610	172,610		-
Interest	183,289	11,090	10,806		284
Total Debt Service	<u>1,404,639</u>	<u>183,700</u>	<u>183,416</u>	<u>-</u>	<u>284</u>
Total Expenditures	13,273,428	12,157,934	11,201,208	114,090	842,636
<b>OTHER USES</b>					
Operating Transfers Out		1,199,638	1,199,638		-
Total Expenditures and Other Uses	<u>\$ 13,273,428</u>	<u>\$ 13,357,572</u>	<u>12,400,846</u>	<u>\$ 114,090</u>	<u>\$ 842,636</u>
Net Change in Fund Balance			305,289		
Fund Balance - Beginning of Year			<u>4,405,796</u>		
Fund Balance - End of Year			<u>\$ 4,711,085</u>		

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Combining Balance Sheet - Other Governmental Funds**  
 May 31, 2017

	Business Improvement District	Park and Conservation	Total Governmental Funds
<b>ASSETS</b>			
Cash			
Unrestricted	\$ 34,410	\$	\$ 34,410
Restricted	5,762	49,514	55,276
Total Assets	\$ 40,172	\$ 49,514	\$ 89,686
<b>LIABILITIES</b>			
Payables			
Accounts payable	\$ 14,654	\$	\$ 14,654
Accrued liabilities	1,793		1,793
Total Liabilities	16,447	-	16,447
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable and deferred revenues			
	14,437		14,437
Total Deferred Inflows of Resources	14,437	-	14,437
<b>Fund balances:</b>			
Restricted:			
Special projects	5,762		5,762
Parks and conservations		49,514	49,514
Assigned:			
Unappropriated fund balance	3,526		3,526
Total Fund Balances (Deficit)	9,288	49,514	58,802
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 40,172	\$ 49,514	\$ 89,686

**INCORPORATED VILLAGE OF PATCHOGUE**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Other Governmental Funds**  
For The Year Ended May 31, 2017

	Business Improvement District	Parks and Conservation	Total Governmental Funds
<b>REVENUES</b>			
Real property taxes	\$ 160,563	\$	\$ 160,563
Use of money and property	42		42
Total Revenues	160,605	-	160,605
<b>EXPENDITURES</b>			
General government support	4,000		4,000
Public safety	156,487		156,487
Economic opportunity and development	732		732
Employee benefits	6,763		6,763
Total Expenditures	167,982	-	167,982
Excess (Deficiency) of Revenues Over Expenditures	(7,377)	-	(7,377)
Fund Balance - Beginning of year	16,665	49,514	66,179
Fund Balance - End of year	\$ 9,288	\$ 49,514	\$ 58,802

**INDEPENDENT AUDITOR'S 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***

To the Board of Trustees  
Incorporated Village of Patchogue  
Patchogue, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Incorporated Village of Patchogue (Village), as of and for the year ended May 31, 2017, and the related notes to financial statements, as listed in the table of contents, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 6, 2017. As described more fully in Note 1, the Incorporated Village of Patchogue has prepared these financial statements in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Incorporated Village of Patchogue's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Incorporated Village of Patchogue's internal control. Accordingly, we do not express an opinion on the effectiveness of the Incorporated Village of Patchogue's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

We noted certain matters that we have reported to the Board of Trustees and management of the Incorporated Village of Patchogue in a separate letter dated October 6, 2017.

## **Purpose of this Report**

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

*Cullen & Danowski, LLP*

October 6, 2017

