INCORPORATED
VILLAGE OF PATCHOGUE

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

May 31, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

An audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, deferred inflows of resources and fund balances of each fund, account group and discretely presented component unit of the Incorporated Village of Patchogue, as of May 31, 2014, and their respective revenues, expenditures, and other financing sources and uses for the year then ended, in accordance with the financial reporting provisions of the New York State Office of the State Comptroller described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared 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 comply with the requirements of the New York State Office of the State Comptroller. 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 19 thru 24 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 on the basis of accounting described in note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Incorporated Village of Patchogue's internal control over financial reporting and compliance.

Restriction of Use

This report is intended solely for the information and use of the Board of Trustees and management of the Incorporated Village of Patchogue and the New York State Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP

September 12, 2014

INCORPORATED VILLAGE OF PATCHOGUE
Balance Sheet - All Fund Types and Account Groups
May 31, 2014

	Total Governmental Funds	Fiduciary Fund Agency	Account Groups: Fixed Assets	Account Groups: Long-Term Debt	Total Village	Component Unit
ASSETS						
Cash	$ 6,639,168	$ 50,556	$	$	$ 6,689,724	$ 446,595
Receivables						
Taxes receivable	15,473				15,473	
Tax sale certificates	53				53	
Accounts receivable	37,046				37,046	
Mortgage receivable	150,000				150,000	75,000
Due from other funds	346,092				346,092	
Due from other governments	22,790				22,790	
Due from component unit	51,221				51,221	
Service award program assets		1,171,368			1,171,368	
General fixed assets			76,851,377		76,851,377	118,000
Amounts to be provided for long-term debt				6,704,665	6,704,665	
Total Assets	$ 7,261,843	$ 1,221,924	$ 76,851,377	$ 6,704,665	$ 92,039,809	$ 639,595
LIABILITIES						
Payables						
Accounts payable	$ 225,691	$	$	$	$ 225,691	$
Accrued liabilities	110,904				110,904	8,793
Due to other funds	346,092				346,092	
Due to primary government						51,221
Due to employees' retirement system	134,356			15,756	150,112	
Compensated absences				884,679	884,679	
Other liabilities		1,221,924			1,221,924	
Notes payable						
Bond anticipation notes	9,044,014				9,044,014	
Unearned credits						
Collections in advance	30,000				30,000	
Installment purchase debt				304,230	304,230	
Bonds payable				5,500,000	5,500,000	
Total Liabilities	9,891,057	1,221,924	-	6,704,665	17,817,646	60,014
DEFERRED INFLOWS OF RESOURCES						
Deferred revenues	491,008				491,008	
Total Deferred Inflows of Resources	491,008	-	-	-	491,008	-
FUND BALANCES						
Investment in general fixed assets			76,851,377		76,851,377	118,000
Fund balances:						
Nonspendable	150,000				150,000	75,000
Restricted:						
Special projects	1,107,247				1,107,247	
Parks and conservations	51,187				51,187	
Assigned:						
Appropriated fund balance	600,000				600,000	
Unappropriated fund balance	727,517				727,517	
Unassigned: Fund balance (deficit)	(5,756,173)				(5,756,173)	386,581
Total Fund Balances	(3,120,222)	-	76,851,377	-	73,731,155	579,581
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 7,261,843	$ 1,221,924	$ 76,851,377	$ 6,704,665	$ 92,039,809	$ 639,595

INCORPORATED VILLAGE OF PATCHOGUE
Balance Sheet - All Fund Types and Account Groups (Continued)
May 31, 2014

	General	Sewer	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	$ 4,925,802	$ 1,591,464	$	$	$ 121,902	$ 6,639,168
Receivables						
Taxes receivable		15,473				15,473
Tax sale certificates	53					53
Accounts receivable	37,046					37,046
Mortgage receivable	150,000					150,000
Due from other funds	346,092					346,092
Due from other governments				22,790		22,790
Due from component unit	51,221					51,221
Service award program assets						-
General fixed assets						-
Amounts to be provided for long-term debt						-
Total Assets	$ 5,510,214	$ 1,606,937	$ -	$ 22,790	$ 121,902	$ 7,261,843
LIABILITIES						
Payables						
Accounts payable	$ 131,083	$ 55,441	$	$ 18,410	$ 20,757	$ 225,691
Accrued liabilities	101,129	8,146			1,629	110,904
Due to other funds				346,092		346,092
Due to component unit						-
Due to employees' retirement system	134,356					134,356
Compensated absences						-
Other liabilities						-
Notes payable						
Bond anticipation note				9,044,014		9,044,014
Unearned credits						
Collections in advance	30,000					30,000
Installment purchase debt						-
Bonds payable						-
Total Liabilities	396,568	63,587	-	9,408,516	22,386	9,891,057
DEFERRED INFLOWS OF RESOURCES						
Deferred revenues	475,464	11,572			3,972	491,008
Total Deferred Inflows of Resources	475,464	11,572	-	-	3,972	491,008
Fund balances:						
Investment in general fixed assets						-
Fund balances:						
Nonspendable	150,000					150,000
Restricted:						
Special projects		1,061,217			46,030	1,107,247
Parks and conservations					51,187	51,187
Assigned:						
Appropriated fund balance	600,000					600,000
Unappropriated fund balance	256,956	470,561				727,517
Unassigned: Fund balance (deficit)	3,631,226			(9,385,726)	(1,673)	(5,756,173)
Total Fund Balances (Deficit)	4,638,182	1,531,778	-	(9,385,726)	95,544	(3,120,222)
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 5,510,214	$ 1,606,937	$ -	$ 22,790	$ 121,902	$ 7,261,843

See Notes to Financial Statements

INCORPORATED VILLAGE OF PATCHOGUE
Statement of Revenues, Expenditures and Changes in Fund Balance - All Fund Types
For The Year Ended May 31, 2014

	Total Governmental Funds	Component Unit
REVENUES		
Real property taxes	$ 6,862,900	$
Other tax items	1,109,363	
Non-property tax items	446,669	
Departmental income	3,000,429	
Use of money and property	74,021	118
Licenses and permits	779,548	
Fines and forfeitures	603,329	
Sale of property and compensation for loss	70,835	
Miscellaneous	393,081	147,461
State sources	635,542	
Federal sources	490,485	2,153,587
Total Revenues	14,466,202	2,301,166
EXPENDITURES		
General government support	4,145,748	
Public safety	2,653,209	
Health	2,000	
Transportation	1,527,716	
Economic opportunity and development	6,087	
Culture and recreation	706,809	
Home and community services	2,089,392	2,277,392
Employee benefits	3,093,281	
Debt service		
Principal	1,006,682	
Interest	250,022	
Total Expenditures	15,480,946	2,277,392
Excess (Deficiency) of Revenues Over Expenditures	(1,014,744)	23,774
OTHER SOURCES AND USES		
Operating transfers in	1,088,253	
Operating transfers out	(1,088,253)	
Proceeds from installment purchase debt	352,605	
BAN redeemed from appropriation	119,948	
Total Other Sources and Uses	472,553	-
Net Change in Fund Balance	(542,191)	23,774
Fund Balance - Beginning of year	(2,578,031)	555,807
Fund Balance - End of year	$ (3,120,222)	$ 579,581

See Notes to Financial Statements

INCORPORATED VILLAGE OF PATCHOGUE
Statement of Revenues, Expenditures and
Changes in Fund Balance - All Fund Types (Continued)
For The Year Ended May 31, 2014

	General	Sewer	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Real property taxes	$ 6,713,627	$	$	$	$ 149,273	$ 6,862,900
Other tax items	40,377	1,068,986				1,109,363
Non-property tax items	446,669					446,669
Departmental income	2,845,496	154,133			800	3,000,429
Use of money and property	71,945	1,819		166	91	74,021
Licenses and permits	296,500	483,048				779,548
Fines and forfeitures	603,329					603,329
Sale of property and compensation for loss	70,835					70,835
Miscellaneous	15,251	21		377,809		393,081
State sources	222,812	18,099		388,551	6,080	635,542
Federal sources	490,485					490,485
Total Revenues	11,817,326	1,726,106	-	766,526	156,244	14,466,202
EXPENDITURES						
General government support	2,747,489	404,969		989,290	4,000	4,145,748
Public safety	1,867,209			652,824	133,176	2,653,209
Health	2,000					2,000
Transportation	1,527,716					1,527,716
Economic opportunity and development					6,087	6,087
Culture and recreation	696,274			8,862	1,673	706,809
Home and community services	1,115,915	948,854		24,623		2,089,392
Employee benefits	2,880,494	206,645			6,142	3,093,281
Debt service						
Principal		151,682	855,000			1,006,682
Interest		31,734	218,288			250,022
Total Expenditures	10,837,097	1,743,884	1,073,288	1,675,599	151,078	15,480,946
Excess (Deficiency) of Revenues Over Expenditures	980,229	(17,778)	(1,073,288)	(909,073)	5,166	(1,014,744)
OTHER SOURCES AND USES						
Operating transfers in			1,073,288	14,965		1,088,253
Operating transfers out	(1,039,099)	(49,154)				(1,088,253)
Proceeds from installment purchase debt				352,605		352,605
BAN redeemed from appropriations				119,948		119,948
Total Other Sources and Uses	(1,039,099)	(49,154)	1,073,288	487,518	-	472,553
Net Change in Fund Balance	(58,870)	(66,932)	-	(421,555)	5,166	(542,191)
Fund Balance (Deficit) - Beginning of year	4,697,052	1,598,710	-	(8,964,171)	90,378	(2,578,031)
Fund Balance (Deficit) - End of year	$ 4,638,182	$ 1,531,778	$ -	$ (9,385,726)	$ 95,544	$ (3,120,222)

See Notes to Financial Statements

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, 2014, 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 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 and management's discussion and analysis. 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.

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, 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.

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.

Parkland 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 Parkland Fund are reflected as other governmental funds in the financial statements.

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 general fixed assets and general long-term debt obligations. The account groups are not funds. They are concerned only with the measurement of financial position and not with the results of operations.

General Fixed Assets Account Group - is used to account for land, construction in progress, buildings and improvements, and machinery and equipment of the Village.

General Long-Term Debt Account Group - is used to account for long-term obligations of the Village including bonds, most obligations under lease/purchase and other financing arrangements, compensated absences, and other long-term obligations.

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. General 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e) Property Taxes

Real property taxes are levied no later than May 15th and become a lien on June 1st. 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 the transfer of expenditures and revenues 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, expenditures, and revenues 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) General Fixed Assets

General fixed 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 general fixed asset account group. Donated items are valued at estimated fair market value when given.

No depreciation has been provided on general fixed assets nor has interest on general fixed assets construction in progress been capitalized.

	Capitalization Threshold
Buildings	$ 1,000
Land Improvements	1,000
Infrastructure	1,000
Furniture, Fixtures and Equipment	1,000

j) Prepaids

Prepaids are payments to others that benefit future reporting periods.

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 grants 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 Revenues

Deferred revenues are reported in the funds when real property taxes are received before the period for which the real property taxes are levied. These amounts are recorded as deferred inflows of resources. They are recognized as real property tax revenues in the year for which the real property taxes are levied, which will be the subsequent year.

m) Employee Benefits

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.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation, or death, employees may be eligible to receive the value of unused accumulated sick leave.

The compensated absences liability is recorded in the Long-Term Debt Account Group. A liability for these amounts may be recorded in the governmental funds on the Balance Sheet to the extent payments become due because of employee retirement or resignation.

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

n) 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 notes. State law requires the BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

o) Accrued Liabilities and Long-Term Obligations

The Balance Sheet reports payables and accrued liabilities of the governmental funds to the extent that they are due and payable within a current period and are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability to the extent they are due for payment in the current year.

Long term obligations represent the Village's future obligations or future economic outflows. The liabilities are reported in the General Long Term Debt Account Group on the Balance Sheet.

p) Postemployment Benefits

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 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 as an expenditure in the year paid.

q) 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. GAAP permits the recognition of five classifications: nonspendable, restricted, committed, assigned and unassigned. However, the Village only utilizes the following four:

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 prepaids and the long-term portion of the mortgage receivable.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by credits, grants, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Fund balance classified as restricted by the Village include the following:

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 Parkland 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. Assigned fund balance also includes 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 overspending for specific purposes for which amounts had been restricted or assigned.

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 to the unassigned fund balance.

2. CHANGES IN ACCOUNTING PRINCIPLES

The Village implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, during 2014. GASB 65 establishes accounting and financial reporting standards that recognize, as deferred outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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 15th. 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 1st.

All subsequent modifications of the budget must be approved by the Board of Trustees.

Appropriations 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 source not included in the original budget (when permitted by law) and appropriation of fund balance. 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 $701,586 in supplementary appropriations primarily funded by unassigned fund balance.

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

B. Deficit Fund Balance

The capital projects fund had a deficit fund balance of $9,385,726 at May 31, 2014. The deficit will be funded when the Village obtains permanent financing.

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 deposits may not be returned to it. 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.

None of the Village's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above 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 maturity date, the entire unpaid principal balance shall be due and payable.

6. INTERFUND TRANSACTIONS

Interfund balances at May 31, 2014, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	$ 346,092	$	$	$ 1,039,099
Sewer Fund				49,154
Debt Service Fund			1,073,288	
Capital Projects Fund		346,092	14,965	
Total	$ 346,092	$ 346,092	$ 1,088,253	$ 1,088,253

7. GENERAL FIXED ASSETS

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

	Balance May 31, 2013	Additions	Reductions	Balance May 31, 2014
Land	$ 4,041,539	$	$	$ 4,041,539
Construction in progress	1,990,219			1,990,219
Buildings	23,927,852	349,458	(45,443)	24,231,867
Land improvements	2,253,022	922,219	(1,912,801)	1,262,440
Infrastructure	39,092,404	1,912,801		41,005,205
Furniture, Fixtures and Equipment	3,710,014	673,477	(63,384)	4,320,107
Capital assets, net	$ 75,015,050	$ 3,857,955	$ (2,021,628)	$ 76,851,377

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

	Balance May 31, 2013	Additions	Reductions	Balance May 31, 2014
Land	$ 118,000	$ -	$ -	$ 118,000

8. BOND ANTICIPATION NOTE

Bond anticipation note activity for the year is summarized below:

	Balance May 30, 2013	Issued	Redeemed	Balance May 31, 2014
BAN	$ 9,163,962	$	$ (119,948)	$ 9,044,014

The bond anticipation note (BAN) represents advances from the New York State Environmental Facilities Corporation for the Village's wastewater treatment facility upgrade project. The BAN bears no interest and matures upon completion of the project, which is projected to be completed within the next eighteen months. Once the project is completed, $5,439,441 of the BAN will be satisfied through the use of ARRA revenue (federal aid) and the balance of the financing will be converted to long term financing (serial bonds).

9. COMPENSATED ABSENCES

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 and a maximum of 60% to 100% of accumulated sick leave up to a maximum of 87-1/2 to 200 days.

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 compensated absence liability is based on current employee salary rates.

10. POST RETIREMENT BENEFITS

In addition to providing pension benefits, the Village provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Village's employees may become eligible for these benefits if they reach normal retirement age while working for the Village. Health care 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 $373,069 for 36 recipients as an expenditure for the fiscal year ended May 31, 2014. Of the 36 recipients, six are surviving spouses who paid 25% or $16,715 and two are retirees paying 50% or $13,786.

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 27 retirees and 14 spouses was $52,660 for the fiscal year ended May 31, 2014.

11. LONG-TERM LIABILITIES

Long-term liability balances and activity for the year are summarized below:

	Balance May 31, 2013	Additions	Reductions	Balance May 31, 2014
Long-term debt:				
Bonds payable	$ 6,355,000	$	$ 855,000	$ 5,500,000
Installment purchase debt		352,605	48,375	304,230
Other long-term liabilities				
Compensated absences	845,487	39,192		884,679
Due to employees' retirement system	31,224		15,468	15,756
	$ 7,231,711	$ 391,797	$ 918,843	$ 6,704,665

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at May 31, 2014
Serial bond	10/15/2006	7/15/2022	3.88%	$ 2,825,000
Serial bond	10/15/2008	7/15/2022	3.00%	375,000
Serial bond	1/15/2010	6/15/2016	2.50%	1,000,000
Serial bond	5/29/2012	6/15/2032	2.50%	1,300,000
				$ 5,500,000

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at May 31, 2014
Parking meters	8/15/2013	8/15/2018	4.16%	$ 304,230

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

Fiscal Year Ending May 31,	Principal	Interest	Total
2015	$ 870,000	$ 186,225	$ 1,056,225
2016	910,000	152,828	1,062,828
2017	895,000	118,447	1,013,447
2018	525,000	91,516	616,516
2019	475,000	73,109	548,109
2020 - 2024	1,225,000	160,797	1,385,797
2025 - 2029	300,000	72,562	372,562
2030 - 2033	300,000	19,313	319,313
Total	$ 5,500,000	$ 874,797	$ 6,374,797

12. PENSION PLANS

A. New York State and Local Employees' Retirement System

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 ERS provides retirement and disability benefits, annual cost of living increases, and death benefits to plan members and beneficiaries.

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 ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. The ERS issues publicly available financial reports that include financial statements and required supplementary information. These reports may be found at www.osc.state.ny.us or may be obtained by writing to: NYS and Local Retirement Systems, Office of the State Comptroller, 110 State Street, Albany, NY 12244.

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.

The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the ERS' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

Year	ERS
2014	$ 850,528
2013	672,215
2012	685,341

B. 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, 2014, is $1,171,386, which is accounted for in the Village's Trust & Agency fund.

13. 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, 2014 totaled $64,158. Cumulative contributions for the plan total $559,367.

14. ASSIGNED APPROPRIATED FUND BALANCE

The amount of $600,000 has been appropriated to reduce taxes for the year ending May 31, 2015.

15. 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, will be immaterial.

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, 2014, which could affect future operating budgets of the Village.

C. Litigation

The Village is a defendant in several lawsuits arising from the normal conduct of its affairs. The administration is of the opinion that settlements, if any, of the aforementioned litigation will not have a material adverse impact on the financial position of the Village.

INCORPORATED VILLAGE OF PATCHOGUE
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For The Year Ended May 31, 2014

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Real Property Taxes				
Real property taxes	$ 6,731,299	$ 6,713,627	$ 6,713,627	$ -
Total Real Property Taxes	6,731,299	6,713,627	6,713,627	-
Other Real Property Tax Items				
Interest and penalties	36,000	36,000	40,377	4,377
Total Other Real Property Tax Items	36,000	36,000	40,377	4,377
Non-Property Tax Items				
Utilities gross receipts tax	197,000	197,000	211,941	14,941
Franchise fees	200,000	200,000	221,431	21,431
Non-property tax, other	12,000	12,000	13,297	1,297
Total Non-Property Tax Items	409,000	409,000	446,669	37,669
Departmental Income				
Charges for tax redemption	-	-	855	855
Treasurer & Clerk fees	4,500	4,500	5,706	1,206
Personnel fees	-	-	7,980	7,980
Other departmental income	29,332	29,332	29,333	1
Safety inspection fees	70,000	70,000	100,711	30,711
Other public safety departmental income	237,480	237,480	238,552	1,072
Public works charges	90,000	90,000	119,367	29,367
Parking meter fees non-taxable	39,000	39,000	96,165	57,165
Park and recreational charges	44,000	44,000	50,283	6,283
Special recreational facility charges	104,000	104,000	109,635	5,635
Zoning fees	5,000	5,000	5,990	990
Planning board fees	15,000	15,000	15,673	673
Refuse and garbage charges	2,043,831	2,065,711	2,065,246	(465)
Total Departmental Income	2,682,143	2,704,023	2,845,496	141,473
Use of Money and Property				
Interest and earnings	6,000	6,000	8,088	2,088
Rental of real property	68,876	68,876	63,857	(5,019)
Total Use of Money and Property	74,876	74,876	71,945	(2,931)
Licenses and Permits				
Licenses	22,100	22,100	26,196	4,096
Permits	350,000	350,000	270,304	(79,696)
Total Licenses and Permits	372,100	372,100	296,500	(75,600)
Fines and Forfeitures				
Fines and forfeitures	454,000	454,000	601,929	147,929
Forfeitures of deposits	-	-	1,400	1,400
Total Fines and Forfeitures	454,000	454,000	603,329	149,329
Sale of Property and Compensation for Loss				
Minor sales	300	300	1,703	1,403
Sales, other	600	600	1,339	739
Insurance recoveries	-	-	67,793	67,793
Total Sale of Property and Compensation for Loss	900	900	70,835	69,935
Miscellaneous				
Refund of prior year's expenditures	-	-	6,211	6,211
Other unclassified	-	-	9,040	9,040
Total Miscellaneous	-	-	15,251	15,251

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, 2014

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES (Continued)				
State Aid				
Revenue sharing	$ 92,000	$ 92,000	$ 102,185	$ 10,185
Mortgage tax	100,000	100,000	119,520	19,520
FEMA	-	-	-	-
Other general government aid	1,000	1,000	1,107	107
Total State Aid	193,000	193,000	222,812	29,812
Federal Aid				
Federal disaster assistance	-	23,000	490,485	467,485
Total Federal Aid	-	23,000	490,485	467,485
Total Revenues	10,953,318	10,980,526	11,817,326	$ 836,800
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	500,000	1,174,378		
Prior Year's Encumbrances	135,712	135,712		
Total Appropriated Fund Balance	635,712	1,310,090		
Total Revenues and Appropriated Fund Balance	$ 11,589,030	$ 12,290,616		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

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, 2014

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
EXPENDITURES					
General Government Support					
Legislative board					
Personal services	$ 64,800	$ 62,600	$ 62,540	$	$ 60
Contractual services	1,500	1,700	919		781
Village justice court					
Personal services	160,036	160,036	149,895		10,141
Equipment	2,000	700	110		590
Contractual services	36,000	43,300	37,930		5,370
Traffic violations					
Personal services	58,009	56,209	56,155		54
Mayor					
Personal services	28,800	28,800	28,800		-
Equipment		1,500	1,466		34
Contractual services	6,000	4,500	3,629		871
Auditor					
Contractual services	47,100	29,500	6,950	22,000	550
Treasurer					
Personal services	190,380	185,942	185,712		230
Equipment	500	5,200	5,185		15
Contractual services	6,250	6,588	5,119		1,469
Assessment					
Personal services	45,608	45,608	45,544		64
Equipment	3,500	3,264	3,236		28
Contractual services	8,400	8,636	7,562		1,074
Tax advertising expense					
Contractual services	500	600	576		24
Clerk and staff					
Personal services	223,045	213,045	212,470		575
Equipment	2,500	31,300	31,013		287
Contractual services	121,000	122,400	117,196	1,795	3,409
Law					
Contractual services	146,500	136,500	134,706	46	1,748
Engineer					
Contractual services	132,103	152,103	147,832	8,246	(3,975)
Elections					
Contractual services	11,000	6,400	4,848		1,552
Buildings - village hall					
Personal services	61,340	61,340	60,897		443
Equipment	-	45,900	29,835		16,065
Contractual services	103,200	71,800	67,873	2,080	1,847
Central garage					
Personal services	137,381	134,381	133,042		1,339
Equipment	5,500	40,100	34,308	21,071	(15,279)
Contractual services	361,250	332,450	327,567		4,883
Unallocated insurance					
Contractual services	215,000	228,000	226,667		1,333
Municipal association dues					
Contractual services	5,087	5,087	5,087		-
Acquisition of property					
Contractual services	-	119,000	119,000		-
Refund of taxes					
Contractual services	95,000	478,500	478,022		478
Payment of MTA payroll tax					
Contractual services	16,000	16,000	15,798		202
Contingent account					
Contractual services	100,000				-
Total General Government Support	2,395,289	2,838,989	2,747,489	55,238	36,262

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, 2014

EXPENDITURES (Continued)	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Public Safety					
Safety administration					
Personal services	$ 254,768	$ 239,168	$ 237,707	$	$ 1,461
Equipment	500	500	-		500
Contractual services	4,375	13,975	13,128		847
Traffic					
Contractual services	45,000	42,000	39,938		2,062
Parking					
Personal services	56,140	56,140	56,139		1
Contractual services	1,375	1,375	384		991
Safety inspections					
Personal services	771,899	789,799	787,746		2,053
Equipment	50,538	57,538	56,915		623
Contractual services	70,120	83,620	74,272	446	8,902
Miscellaneous public safety					
Contractual services	607,000	601,000	600,980		20
Total Public Safety	1,861,715	1,885,115	1,867,209	446	17,460
Health					
Registrar of vital statistics					
Personal services	2,000	2,000	2,000		-
Total Health	2,000	2,000	2,000	-	-
Transportation					
Street administration					
Personal services	823,792	767,980	766,013		1,967
Equipment	66,707	51,208	49,439		1,769
Contractual services	180,775	164,375	152,280	5,627	6,468
Snow removal					
Personal services	75,000	98,184	98,101		83
Equipment	18,000	10,000	9,428		572
Contractual services	108,000	87,900	77,536		10,364
Street lighting					
Personal services	15,000	12,600	9,278		3,322
Contractual services	217,727	233,739	185,909	43,612	4,218
Off street parking					
Equipment	-	277,100	176,879	99,856	365
Contractual services	16,500	3,500	2,853		647
Total Transportation	1,521,501	1,706,586	1,527,716	149,095	29,775
Culture and Recreation					
Recreational administration					
Personal services	53,455	53,455	52,059		1,396
Contractual services	4,450	2,450	1,725		725
Parks					
Personal services	216,169	220,388	220,160		228
Equipment	18,000	75,550	70,040	5,500	10
Contractual services	80,115	93,115	77,711	11,800	3,604

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, 2014

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)					
Playground and recreation centers					
Personal services	$ 60,159	$ 59,259	$ 59,069	$	$ 190
Equipment	1,200		-		-
Contractual services	30,000	40,800	39,492		1,308
Marina & dock expense					
Personal services	12,000	5,000	4,915		85
Contractual services	2,000	5,000	4,711		289
Special recreational facility - pool					
Personal services	78,504	51,704	51,462		242
Equipment	4,000	9,900	9,708		192
Contractual services	58,835	55,435	47,467	6,200	1,768
Band concerts					
Personal services	1,100				-
Contractual services	18,800	21,800	20,912		888
Youth programs					
Personal services	43,413	21,213	20,120		1,093
Equipment	300	300	-		300
Contractual services	10,500	11,900	9,554	995	1,351
Historian					
Contractual services	75	85	85		-
Celebrations					
Contractual services	2,500	1,090	1,004		86
Adult recreation					
Personal services	7,500	4,000	2,838		1,162
Equipment	200	200	-		200
Contractual services	4,400	4,400	3,242		1,158
Total Culture and Recreation	707,675	737,044	696,274	24,495	16,275
Home and Community Services					
Zoning board of appeals					
Personal services	7,500	8,000	7,916		84
Contractual services	16,772	12,236	11,106		1,130
Planning board					
Personal services	15,000	15,000	12,291		2,709
Contractual services	21,000	14,036	11,528		2,508
Storm sewers					
Contractual services	30,000	25,000	18,640	5,410	950
Refuse					
Personal services	549,215	566,282	535,376		30,906
Contractual services	528,250	456,650	449,366		7,284
Street cleaning					
Personal services	67,582	70,582	69,692		890
Contractual services	9,000	22,000	-	21,676	324
Shade trees					
Contractual services	2,000	2,000	-		2,000
Total Home and Community Services	1,246,319	1,191,786	1,115,915	27,086	48,785

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, 2014

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)					
Employee Benefits					
State employee retirement	$ 686,803	$ 769,803	$ 769,049	$	$ 754
Local pension fund	131,000	138,500	138,087		413
Social security and medicare	346,414	313,514	309,537		3,977
Workers compensation	310,200	418,200	415,137	596	2,467
Unemployment insurance	10,000	5,000	4,235		765
Disability insurance	100	100	-		100
Hospital and medical insurance	1,325,880	1,237,380	1,236,949		431
Other benefits	20,000	7,500	7,500		-
Total Employee Benefits	2,830,397	2,889,997	2,880,494	596	8,907
Total Expenditures	10,564,896	11,251,517	10,837,097	256,956	157,464
OTHER USES					
Operating Transfers Out	1,024,134	1,039,099	1,039,099		-
Total Expenditures and Other Uses	$ 11,589,030	$ 12,290,616	11,876,196	$ 256,956	$ 157,464
Net Change in Fund Balance			(58,870)		
Fund Balance - Beginning of Year			4,697,052		
Fund Balance - End of Year			$ 4,638,182		

CULLEN & DANOWSKI, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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(1950 - 2013)

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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, 2014, 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 September 12, 2014. 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 September 12, 2014.

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

September 12, 2014