

TOWN OF EASTCHESTER, NEW YORK  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2003  
WITH INDEPENDENT AUDITORS' REPORT

TOWN OF EASTCHESTER, NEW YORK

TABLE OF CONTENTS

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	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Town Outside Villages, Highway and Special Districts Funds	20
Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Assets and Liabilities	26
Notes to the Financial Statements	27
Combining and Individual Fund Financial Statements and Schedules:	
Major Governmental Funds:	
General Fund:	
Balance Sheet	52
Schedule of Revenues, Expenditures and Changes in Fund - Budget and Actual	53
Schedule of Revenues and Other Financing Sources Compared to Budget	54
Schedule of Expenditures and Other Financing Uses Compared to Budget	56
Town Outside Villages Fund:	
Balance Sheet	59
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	60
Schedule of Revenue and Other Financing Sources Compared to Budget	61
Schedule of Expenditures and Other Financing Uses Compared to Budget	63
Highway Fund:	
Balance Sheet	65
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	66
Special Districts Fund:	
Combining Balance Sheet - Sub Funds	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Sub Funds	69
Sewer District:	
Balance Sheet	71
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	72

TOWN OF EASTCHESTER, NEW YORK

TABLE OF CONTENTS (Concluded)

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	Page
Water District:	
Balance Sheet	73
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	74
Refuse District:	
Balance Sheet	75
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	76
Lighting District:	
Balance Sheet	77
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	78
Parking District:	
Balance Sheet	79
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	80
Capital Projects Fund:	
Balance Sheet	81
Statement of Revenues, Expenditures and Changes in Fund Balance	82
Project-Length Schedule	83
Non-Major Governmental Funds:	
Combining Balance Sheet	85
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	86
Special Revenue Funds:	
Public Library Fund:	
Balance Sheet	87
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	88
Section 8 Housing Fund:	
Balance Sheet	89
Statement of Revenues, Expenditures and Changes in Fund Balance	90
Special Purpose Fund:	
Balance Sheet	91
Statement of Revenues, Expenditures and Changes in Fund Balance	92
Internal Service Funds:	
Combining Statement of Net Assets	93
Combining Statement of Revenues, Expenses and Changes in Net Assets	94
Combining Statement of Cash Flows	95
Workers Compensation Benefits Fund:	
Statement of Net Assets	96
Statement of Revenues, Expenses and Changes in Net Assets	97
Statement of Cash Flows	98
General Liability Claims Fund:	
Statement of Net Assets	99
Statement of Revenues, Expenses and Changes in Net Assets	100
Statement of Cash Flows	101
Statement of Changes in Fiduciary Assets and Liabilities - Agency Fund	102

## INDEPENDENT AUDITORS' REPORT

To the Honorable Supervisor and Town Board of  
the Town of Eastchester, New York:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Eastchester, New York as of and for the year ended December 31, 2003, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Eastchester, New York at December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General, Town Outside Villages, Highway and Special Districts Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 1 to the basic financial statements, the Town of Eastchester, New York adopted the provisions of Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*," Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*," Statement No. 36, "*Recipient Reporting for Certain Shared Nonexchange Revenues*," Statement No. 37, "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*," and Statement No. 38, "*Certain Financial Statement Note Disclosures*" as of and for the year ended December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2004 on our consideration of the Town of Eastchester, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Eastchester, New York's basic financial statements. The accompanying financial information listed as combining and individual fund financial statements and schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town of Eastchester, New York. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

**The Government Services Division of ODMD, LLP**  
February 27, 2004

**Note 1 - Summary of Significant Accounting Policies**

The Town of Eastchester, New York was established in 1664 and operates in accordance with Town Law and the various other applicable laws of the State of New York. The Town Board is the legislative body responsible for overall operation. The Town Supervisor serves as the chief executive officer and the Town Comptroller serves as the chief financial officer. The Town provides the following services to its residents: public safety, transportation, economic opportunity and development, culture and recreation, home and community services and general and administrative support.

The accounting policies of the Town of Eastchester, New York conform to generally accepted accounting principles as applicable to governmental units and the Uniform System of Accounts as prescribed by the State of New York. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town's more significant accounting policies:

**A. Financial Reporting Entity**

The financial reporting entity consists of a) the primary government which is the Town of Eastchester, b) organizations for which the Town is financially accountable and c) other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the Town's reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. Based upon the application of these criteria, there are no other entities which would be included in the financial statements.

**B. Adoption of New Accounting Standards**

During fiscal year 2003, the Town adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*; GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, issued June 1999; GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued June 2001, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

Financial statements for the year ended December 31, 2002 were issued in conformance with generally accepted accounting principles. GASB Statement No. 34 required certain amounts to be restated. The reconciliation of restated amounts to the December 31, 2002 year-end balance is described below.

The gross cost of capital assets and accumulated depreciation balances at December 31, 2002 were restated to capitalize assets and record accumulated depreciation in accordance with the adoption of GASB Statement No. 34. The gross cost balances at December 31, 2002 were also restated to reflect the increase in the capitalization threshold from \$500 to \$5,000. Certain long-term and other liabilities were also restated.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund Balance at December 31, 2002 - Governmental Funds .....	\$ 7,728,243
Change in Accounting Principle (Note 2C).....	<u>373,072</u>
Fund Balance at December 31, 2002, As Restated .....	8,101,315
Retained Earnings at December 31, 2002 - Internal Service Funds .....	1,075,028
Net Capital Assets .....	8,226,336
Deferred Tax Revenues .....	79,390
Long-term Liabilities .....	(7,713,413)
Accrued Interest .....	<u>(131,674)</u>
 Restated Net Assets as of January 1, 2003.....	 <u>\$ 9,636,982</u>

The Town, as part of its compliance with GASB Statement No. 34, reclassified its expendable trust fund to a special revenue fund type entitled "Special Purpose Fund".

**C. Government-Wide Financial Statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the financial position of the Town at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Enterprise Fund and the Internal Service Funds are charges to customers for services. Operating expenses for the Enterprise Fund and the Internal Service Funds include the cost of services, administrative expenses, depreciation costs and benefit costs. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Fund Financial Statements**

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, fund balances/net assets, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Town maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. Fiduciary funds are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the statements or the page following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation. The Town's resources are reflected in the fund financial statements in three broad fund categories, in accordance with generally accepted accounting principles as follows:

**1. Fund Categories**

- a. Governmental Funds - Governmental Funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the Town's major governmental funds:

General Fund - The General Fund constitutes the primary operating fund of the Town in that it includes all revenues and expenditures not required by law to be accounted for in other funds.

Special Revenue Funds - Special revenue funds are established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain defined purposes. The special revenue funds of the Town are as follows:

Town Outside Villages Fund - The Town Outside Villages Fund is used to account for transactions which by statute affect only those areas outside the boundaries of the villages located within the Town.

Highway Fund - The Highway Fund is used to account for road and bridge maintenance and improvements as defined in the Highway Law of the State of New York.

Special Districts Fund - The Special Districts Fund is provided to account for the operation and maintenance of the Town's sewer, water, refuse, lighting and parking districts.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The Town also reports the following non-major governmental funds.

Special Revenue Funds:

Public Library Fund - The Public Library Fund is used to account for the activities of the Town's Public Library.

Section 8 Housing Fund - The Section 8 Housing Fund is used to account for projects financed by entitlements from the U.S. Department of Housing and Urban Development.

Special Purpose Fund - The Special Purpose Fund is used to account for assets held by the Town in accordance with the terms of a trust agreement.

- b. Proprietary Funds - Proprietary funds include enterprise and internal service funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability. Enterprise funds are used to account for those operations that provide services to the public. Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The operations of the Lake Isle recreational facility are recorded as a major enterprise fund. The Town has established its Workers' Compensation Benefits and General Liability Claims funds as internal service funds. The Town applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 in accounting and reporting for its enterprise operations.
- c. Fiduciary Funds (Not Included in Governmental-Wide Statements) - The Fiduciary Funds are used to account for assets held by the Town in an agency capacity on behalf of others.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial reports.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Internal Service Funds. The Agency Fund has no measurement focus and utilizes the accrual basis of accounting. Revenues

**Note 1 - Summary of Significant Accounting Policies (Continued)**

are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

**F. Assets, Liabilities and Net Assets or Fund Balances**

**Cash and Equivalents** - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of less than three months.

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

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

The Town utilizes a pooled investment concept for all governmental funds to facilitate its investment program. Investment income from this pooling is allocated to the respective funds based upon the sources of funds invested.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Investments** - All investments are stated at amortized cost, which approximates fair value.

**Taxes Receivable** - Real property taxes attach as an enforceable lien on real property and are levied on January 1st. The Town collects county, town, highway and special districts taxes which are due April 1st and payable without penalty to April 30th. School districts taxes for the period July 1st to June 30th are levied on July 1st and are due on September 1st with the first half payable without penalty until September 30th and the second half payable without penalty until January 31st. The Town guarantees the full payment of the County and school districts warrants and assumes the responsibility for uncollected taxes. The Town also has the responsibility for conducting in-rem foreclosure proceedings.

The Town functions in both a fiduciary and guarantor relationship with the County of Westchester and the various school districts located within the Town with respect to the collection and payment of real property taxes levied by such jurisdictions. County taxes are included in the Town's levy and are payable without penalty for thirty days. The County Charter provides for the Town to collect County and school districts taxes and remit them as collected to the respective municipality. However, the Town must remit to the County sixty percent of the amount levied by May 25th and the balance of forty percent on October 15th. With respect to school districts taxes, the Charter provides that the Town satisfy the warrant of each school district by April 5th. Thus, the Town's fiduciary responsibility is from the date of the levy until the due date of the respective tax warrant at which time the Town must satisfy its obligation to the municipalities regardless of the amounts collected. The County tax warrant is due in October and uncollected County taxes have been accounted for in a manner similar to Town taxes. The collection of school districts taxes is deemed a financing transaction until the warrants are satisfied.

**Other Receivables** - Other receivables include amounts due from other governments and individuals for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

**Due From/To Other Funds** - During the course of its operations, the Town has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of December 31, 2003, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Any residual balances outstanding between the governmental activities and business type activities are reported in the government-wide financial statements as internal balances.

**Inventory** - There are no inventory values presented in the balance sheets of the respective funds of the Town. Purchases of inventoriable items at various locations are recorded as expenditures at the time of purchase and year-end balances at these locations are not material.

**Prepaid Expenses/Expenditures** - Prepaid expenses/expenditures consist of employee retirement, health insurance and other costs which have been satisfied prior to the end of the fiscal year, but represent items which have been provided for in the subsequent year's budget

**Note 1 - Summary of Significant Accounting Policies (Continued)**

and will benefit such periods. Reported amounts in governmental funds are equally offset by a reservation of fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

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

Class	Life in Years
Land Improvements	5-30
Buildings and improvements	20-40
Pool Facilities	20
Infrastructure	10-50
Machinery and equipment	5-20

The costs associated with the acquisition or construction of capital assets are shown as capital outlay expenditures on the governmental fund financial statements. Capital assets are not shown on the governmental fund balance sheet.

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

Deferred revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The Town has reported deferred revenues of \$182,381 for real property taxes, \$3,097 for a grant received in advance and \$37,758 for parking permit fees received in advance in the General Fund. The Town has also reported deferred revenues of \$26,660 for grants received in advance in the Town Outside Villages Fund and \$11,345 for a grant received in advance in the Capital Projects Fund. Such amounts have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

**Compensated Absences** - The various collective bargaining agreements provide for the payment of accumulated vacation and sick leave upon separation from service. The liability for such accumulated leave is reflected in the government-wide and proprietary fund financial

**Note 1 - Summary of Significant Accounting Policies (Continued)**

statements as current and long-term liabilities. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement. The liability for compensated absences includes salary related payments, where applicable.

**Long-Term Liabilities** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount, where applicable. Bond issuance costs are amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as Capital Projects Fund expenditures.

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets on the Statement of Net Assets include, invested in capital assets, net of related debt, restricted for debt service, DARE, capital projects, workers' compensation benefits, general liability claims and special revenue funds. The balance is classified as unrestricted.

**Fund Balances - Reserves and Designations** - Portions of fund balance are segregated for future use and are therefore not available for future appropriation or expenditure. Amounts reserved for prepaid expenditures, encumbrances, debt service, long-term receivables, DARE and trusts represent portions of fund balance which are required to be segregated in accordance with State law or generally accepted accounting principles. Designations of unreserved fund balance in governmental funds indicate the utilization of these resources in the ensuing year's budget or tentative plans for future use.

**G. Encumbrances**

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

**H. Use of Estimates**

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

**Note 2 - Stewardship, Compliance and Accountability**

**A Budgetary Data**

The Town generally follows the procedures enumerated below in establishing the budgetary data reflected in the financial statements:

- a) Prior to October 20th, the head of each administrative unit shall submit to the budget officer an estimate of revenues and expenditures for such administrative unit for the ensuing year.
- b) The budget officer, upon completion of the review of the estimates, shall prepare a tentative budget and file such budget in the office of the Town Clerk on or before October 30th.
- c) On or before November 10th, the Town Clerk shall present the tentative budget to the Town Board.
- d) The Town Board shall review the tentative budget and may make such changes, alterations and revisions as it shall consider advisable and which are consistent with law. Upon completion of such review, the tentative budget and any modifications as approved by the Town Board shall become the preliminary budget.
- e) On or before December 10th, the Town Board shall hold a public hearing on the preliminary budget.
- f) After the public hearing, the Town Board may further change, alter and revise the preliminary budget subject to provisions of the law.
- g) The preliminary budget as submitted or amended shall be adopted by resolution no later than December 20th.
- h) Formal budgetary integration is employed during the year as a management control device for General and certain Special Revenue funds.
- i) Budgets for General and certain Special Revenue funds are legally adopted annually on a basis consistent with generally accepted accounting principles. The Capital Projects Fund is budgeted on a project basis. Annual budgets are not adopted for the Section 8 Housing, Special Purpose or Proprietary funds.
- j) The Town Board has established legal control of the budget at the function level of expenditures. Transfers between appropriation accounts, at the function level, require approval by the Board. Any modification to appropriations resulting from an increase in revenue estimates or supplemental reserve appropriations also require a majority vote by the Board.
- k) Appropriations in the General and certain Special Revenue funds lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year pursuant to the Uniform System of Accounts promulgated by the Office of the State Comptroller.

**Note 2 - Stewardship, Compliance and Accountability (Continued)**

Budgeted amounts are as originally adopted, or as amended by the Town Board. Individual amendments for the current year were not material in relation to the original appropriations which were amended.

**B. Property Tax Limitation**

The Town is not limited as to the maximum amount of real property taxes which may be raised.

**C. Excess of Actual Expenditures Over Budget**

Expenditures of the following capital projects exceeded their authorizations by the amounts indicated, resulting in deficits of similar amounts:

	<u>Project Number</u>	<u>Amount</u>
Mill Road Revitalization	9324	\$ 88,551
Parkway Oval Revitalization	9327	724

**D. Change in Accounting Principle**

Pursuant to GASB Statement No. 34, the Town, during the 2003 fiscal year, was required to record a prepaid expenditure for health insurance deposits in excess of payments by the claims administrator in certain governmental funds. Previously, these excess deposits offset the liability recorded in the General Long-Term Debt Account Group. Accordingly, the fund balance of the following governmental funds has been restated as of January 1, 2003 for the effect of this change.

<u>Fund</u>	<u>Amount</u>
General	\$ 92,591
Town Outside Villages	142,778
Highway	70,486
Special Districts	38,539
Library	<u>28,678</u>
	<u>\$ 373,072</u>

**E. Prior Period Adjustment**

The prior period adjustment in the Lake Isle Enterprise Fund represents the correction of the depreciation of certain assets of the fund. The net assets of the Lake Isle Enterprise Fund have been increased by \$228,885 as a result of this correction.

**Note 2 - Stewardship, Compliance and Accountability (Continued)**

**F. Capital Projects Fund Deficit**

The undesignated deficit in the Capital Projects Fund of \$1,036,024 arises because of the application of generally accepted accounting principles to the financial reporting of such funds. The proceeds of bond anticipation notes issued to finance construction of capital projects are not recognized as an "other financing source". Liabilities for bond anticipation notes issued payable are accounted for in the Capital Projects Fund. Bond anticipation notes are recognized as revenue only to the extent that they are redeemed. These deficits will be reduced and eliminated as the bond anticipation notes are redeemed from interfund transfers from other governmental funds or converted to permanent financing. Other deficits, where no bond anticipation notes were issued or outstanding to the extent of the project deficit, arise because of expenditures exceeding current financing on the projects. These deficits will be eliminated with the subsequent receipt or issuance as authorized financing.

**Note 3 - Detailed Notes on All Funds**

**A. Deposits**

The carrying amount of the Town's deposits was \$9,528,521. This amount is exclusive of petty cash of \$4,002. The bank balance was \$10,035,295. Of the bank balance, \$657,201 was covered by Federal deposit insurance, \$8,645,590 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name and \$732,504 was covered by collateral held by the trust department of the pledging financial institution in the Town's name.

**B. Investments**

The Town participates in a cooperative investment pool established pursuant to General Municipal Law. The sponsoring agency of the pool is another governmental unit, which acting through the fiscal officer, is primarily responsible for executing the provisions of the cooperative agreement. The pool is authorized to invest in various securities issued by the United States and its agencies. The Town's share of these investments at December 31, 2003 was \$2,734,949. This amount represents the amortized cost of the cooperative shares and is considered to approximate fair value. These investments are not subject to risk categorization. Additional information concerning the cooperative is presented in the annual report of the Cooperative Liquid Assets Securities System (CLASS).

**C. Taxes Receivable**

Taxes receivable at December 31, 2003 consisted of the following:

Town taxes - Current	\$ 337,143
School districts taxes - Current	17,851,966
Overdue taxes	637,598
Property acquired for taxes	<u>4,299</u>
	18,831,006
Less - Allowance for uncollectible taxes	<u>(12,164)</u>
	<u>\$ 18,818,842</u>

**Note 3 - Detailed Notes on All Funds (Continued)**

School districts taxes are offset by liabilities to the school districts which will be paid no later than April 5, 2004. Town taxes receivable in the fund financial statements are also partially offset by deferred tax revenues of \$182,381, which represents an estimate of the taxes receivable which will not be collected within the first sixty days of the subsequent year. School and County taxes receivable are also reserved in the fund financial statements by a reserve for long-term receivables of \$233,402, which represents an estimate of taxes receivable which will not be collected within the subsequent year.

**D. Due From/To Other Funds**

The balances reflected as due from/to other funds at December 31, 2003 were as follows:

Fund	Due From	Due To
General	\$ 600,360	\$ 3,259,640
Town Outside Villages	1,633,081	-
Highway	881,664	-
Special Districts	691,300	51,385
Capital Projects	52,600	291,588
Non-Major Governmental Funds	295,062	98,708
Lake Isle	-	456,032
Workers' Compensation Benefits	221,704	-
General Liability Claims	-	218,418
	<u>\$ 4,375,771</u>	<u>\$ 4,375,771</u>

**E. Capital Assets**

Changes in the Town's capital assets are as follows:

Class	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land	\$ 405,131	\$ -	\$ -	\$ 405,131
Construction-in-progress	-	126,241	-	126,241
Total Capital Assets, not being Depreciated	<u>\$ 405,131</u>	<u>\$ 126,241</u>	<u>\$ -</u>	<u>\$ 531,372</u>
Capital Assets, being depreciated:				
Land improvements	\$ 528,949	\$ -	\$ -	\$ 528,949
Buildings and improvements	1,270,485	-	-	1,270,485
Infrastructure	10,123,614	88,323	-	10,211,937
Machinery and equipment	3,615,226	245,778	-	3,861,004
Total Capital Assets being Depreciated	<u>15,538,274</u>	<u>334,101</u>	<u>-</u>	<u>15,872,375</u>

## TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

Class	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Less Accumulated Depreciation for:				
Land improvements	\$ 503,654	\$ 2,704	\$ -	\$ 506,358
Buildings and improvements	1,207,081	12,635	-	1,219,716
Infrastructure	4,109,172	476,096	-	4,585,268
Machinery and equipment	<u>1,897,162</u>	<u>288,008</u>	<u>-</u>	<u>2,185,170</u>
Total Accumulated Depreciation	<u>7,717,069</u>	<u>779,443</u>	<u>-</u>	<u>8,496,512</u>
Total Capital Assets, being Depreciated, net	<u>\$ 7,821,205</u>	<u>\$ (445,342)</u>	<u>\$ -</u>	<u>\$ 7,375,863</u>
Governmental Activities Capital Assets, net	<u>\$ 8,226,336</u>	<u>\$ 319,101</u>	<u>\$ -</u>	<u>\$ 7,907,235</u>
<b>Business-type Activities:</b>				
Capital Assets, not being depreciated:				
Land	\$ 3,465,000	\$ -	\$ -	\$ 3,465,000
Construction-in-progress	<u>523,608</u>	<u>-</u>	<u>523,608</u>	<u>-</u>
	<u>\$ 3,988,608</u>	<u>\$ -</u>	<u>\$ 523,608</u>	<u>\$ 3,465,000</u>
Capital Assets, being depreciated:				
Buildings and improvements	\$ 9,752,536	\$ 523,608	\$ -	\$ 10,276,144
Pool facilities	2,626,901	-	-	2,626,901
Machinery and equipment	<u>1,182,072</u>	<u>5,495</u>	<u>-</u>	<u>1,187,567</u>
Total Capital Assets being Depreciated	<u>13,561,509</u>	<u>529,103</u>	<u>-</u>	<u>14,090,612</u>
Less Accumulated Depreciation for:				
Buildings and improvements	3,324,328	410,088	-	3,734,416
Pool facilities	2,337,945*	16,903	-	2,354,848
Machinery and equipment	<u>801,659</u>	<u>50,310</u>	<u>-</u>	<u>851,969</u>
Total Accumulated Depreciation	<u>6,463,932</u>	<u>477,301</u>	<u>-</u>	<u>6,941,233</u>
Total Capital Assets, being Depreciated, net	<u>\$ 7,097,577</u>	<u>\$ 51,802</u>	<u>\$ -</u>	<u>\$ 7,149,379</u>
Business-type Activities Capital Assets, net	<u>\$ 11,086,185</u>	<u>\$ 51,802</u>	<u>\$ 523,608</u>	<u>\$ 10,614,379</u>

\*This amount has been restated to reflect the prior period adjustment of \$228,885.

**Note 3 - Detailed Notes on All Funds (Continued)**

Depreciation expense was charged to the Town's functions and programs as follows:

Governmental Activities:	
General Government Support	\$ 11,190
Public Safety	16,200
Transportation	532,302
Culture and Recreation	47,890
Home and Community Services	<u>171,861</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 779,443</u>
 Business-type Activities -	
Lake Isle	<u>\$ 477,301</u>

**Construction Commitments**

The Town has active construction projects as of December 31, 2003. These projects include new construction and renovations. At year end, the Town had \$225,255 in construction encumbrances.

**F. Pension Plans**

The Town of Eastchester, New York participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (Systems). These Systems are cost-sharing, multiple-employer defined benefit pension plans. The Systems provide retirement, disability and death benefits to plan members. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith State Office Building, Albany, New York 12224.

Funding Policy - The Systems are non-contributory except for employees who joined ERS after July 27, 1976 and have less than ten years of service, who contribute 3% of their salary. Contributions are certified by the State Comptroller and expressed as a percentage of members' salary. Contribution rates are actuarially determined and based upon membership tier and plan. Contributions consist of a life insurance portion (GTLI) and regular pension contributions. Contribution rates for the plan year ended March 31, 2004 are as follows:

	<u>Tier/Plan/Option</u>	<u>GTLI</u>	<u>Regular</u>
ERS	1 75I	.4 %	4.5%
	2 75I	.4	4.5
	3 A14	.4	4.5
	4 A15	.4	4.5
PFRS	1 384D, 3029D	.1 %	4.5
	2 384D	.1	4.5

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

Contributions made to the Systems for the current and two preceding years were as follows:

	<u>ERS</u>	<u>PFRS</u>
2003	\$ 265,103	\$ 146,720
2002	75,109	3,963
2001	45,476	4,071

These contributions were equal to 100% of the actuarially required contributions for each respective fiscal year.

The current ERS contribution for the Town of Eastchester, New York was charged to the funds identified below. The current PFRS contribution was charged to the Town Outside Villages Fund.

<u>Fund</u>	<u>Amount</u>
General	\$ 95,476
General - Community Development	6,199
Town Outside Villages	19,314
Highway	53,898
Special Districts	30,466
Public Library	27,630
Lake Isle	<u>32,120</u>
	<u>\$ 265,103</u>

**G. Short-Term Non-Capital Borrowings**

The schedule below details the changes in short-term non-capital borrowings.

<u>Type</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance January 1, 2003</u>	<u>New Issues</u>	<u>Redemptions</u>	<u>Balance December 31, 2003</u>
Tax Anticipation Note	3/6/03	6/6/03	1.25%	\$ -	\$ 3,200,000	\$ 3,200,000	\$ -
Bond Anticipation Note	9/10/03	9/9/04	1.14%	\$ -	329,406	-	329,406
Bond Anticipation Note	10/8/03	9/4/04	2.00	-	<u>236,367</u>	-	<u>236,367</u>
				<u>\$ -</u>	<u>\$ 565,773</u>	<u>\$ -</u>	<u>\$ 565,773</u>

The tax anticipation note was issued in anticipation of the collection of real property taxes. The bond anticipation notes were issued to finance the cost of tax certiorari judgments.

Interest expenditures of \$10,000 on the tax anticipation note were recorded in the fund financial statements in the General Fund and in the government-wide financial statements. Interest expense of \$2,254 on the bond anticipation notes were recorded in the government-wide financial statements.

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

**H. Short-Term Capital Borrowings**

The schedule below details the changes in short-term capital borrowings.

Purpose	Original Issue Date	Maturity Date	Interest Rate	Balance January 1, 2003	New Issues	Redemptions	Balance December 31, 2003
Governmental Type Activities:							
Capital Projects Fund:							
Parkway Oval Revitalization	10/9/02	9/4/04	2.00%	\$ 50,000	\$ -	\$ 3,333	\$ 46,667
Air Compressor	10/9/02	9/4/04	2.00	25,000	-	2,500	22,500
Highway Leaf Machine	10/9/02	9/4/04	2.00	15,000	-	3,000	12,000
Street Resurfacing 2002	10/9/02	9/4/04	2.00	156,000	-	15,600	140,400
Sidewalks and Curb							
Replacement 2002	10/9/02	9/4/04	2.00	75,000	-	7,500	67,500
Highway Roll-off Truck	10/9/02	9/4/04	2.00	160,000	-	10,667	149,333
Cargo Parks Van	10/9/02	9/4/04	2.00	27,000	-	5,400	21,600
Scarsdale Avenue Streetscape	10/9/02	9/4/04	2.00	100,000	-	10,000	90,000
Police Speed Humps	9/10/03	9/9/04	1.14	-	20,000	-	20,000
Street Resurfacing 2003	9/10/03	9/9/04	1.14	-	200,000	-	200,000
Sidewalks and Curb							
Replacement 2003	9/10/03	9/9/04	1.14	-	195,000	-	195,000
Joyce Road Park	9/10/03	9/9/04	1.14	-	65,000	-	65,000
Police Computer Upgrade	9/10/03	9/9/04	1.14	-	40,000	-	40,000
Highway Wheel Loader	11/18/03	9/9/04	1.34	-	120,000	-	120,000
Refuse Packer Truck	11/18/03	9/9/04	1.34	-	140,000	-	140,000
				608,000	780,000	58,000	1,330,000
Business-Type Activities:							
Lake Isle Fund -							
Various Improvements	10/7/02	9/4/04	2.00%	600,000	-	46,154	553,846
Total				<u>\$ 1,208,000</u>	<u>\$ 780,000</u>	<u>\$ 104,154</u>	<u>\$ 1,883,846</u>

Liabilities for bond anticipation notes are generally accounted for in the Capital Projects Fund. Bond anticipation notes issued for judgments or settled claims are recorded in the fund paying the claim. Principal payments on bond anticipation notes must be made annually. State law requires that bond anticipation notes issued for capital purposes or judgments be converted to long-term obligations generally within five years after the original issue date. However, bond anticipation notes issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

Interest expenditures/expense of \$18,565 were recorded in the fund financial statements in the following funds.

Fund	Amount
Governmental Funds:	
General	\$ 397
Highway	6,164
Special Districts	<u>2,352</u>
	8,913
Enterprise Fund- Lake Isle	<u>9,652</u>

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

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**Note 3 - Detailed Notes on All Funds (Continued)**

\$ 18,565

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

Interest expense of \$11,660 was recorded in the government-wide financial statements for governmental activities.

**I. Health Claim Liabilities**

The government-wide financial statements reflect the liability for health benefit claims. These liabilities are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved.

An analysis of the activity of health benefit claim liabilities in the government-wide financial statements is as follows:

	Year Ended	
	December 31,	December 31,
	2003	2002
Balance - Beginning of Year	\$ 329,382	\$ 445,000
Provision for Claims and Claims Adjustment Expenses	2,580,142	2,174,803
Claims and Claims Adjustment Expenses Paid	<u>(2,562,171)</u>	<u>(2,290,421)</u>
Balance - End of Year	<u>\$ 347,353</u>	<u>\$ 329,382</u>

The liability for health claims is reflected in the government-wide financial statements as accrued liabilities. In the fund financial statements, deposits in excess of payments by the claims administrator have been reflected as a prepaid expenditure.

**J. Long-Term Liabilities**

The following table summarizes changes in the Town's long-term indebtedness for the year ended December 31, 2003:

	Balance January 1, 2003	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2003	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 6,415,805	\$ -	\$ 948,014	\$ 5,467,791	\$ 793,885
Compensated Absences	892,254	85,178	89,254	888,178	88,178
Retirement Incentives and Other Pension Liabilities	85,836	-	24,668	61,168	26,641
Claims Payable	<u>613,479</u>	<u>621,088</u>	<u>573,259</u>	<u>661,308</u>	<u>429,506</u>
Governmental Activities Long-Term Liabilities	<u>\$ 8,007,374</u>	<u>\$ 706,266</u>	<u>\$ 1,635,195</u>	<u>\$ 7,078,445</u>	<u>\$ 1,338,210</u>
Business-Type Activities:					
Bonds Payable	\$ 5,835,967	\$ -	\$ 458,758	\$ 5,377,209	\$ 491,115
Compensated Absences	<u>32,831</u>	<u>7,397</u>	<u>3,283</u>	<u>36,945</u>	<u>3,695</u>
Business-Type Activities					

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2003

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**Note 3 - Detailed Notes on All Funds (Continued)**

Long-Term Liabilities	<u>\$ 5,868,798</u>	<u>\$ 7,397</u>	<u>\$ 462,041</u>	<u>\$ 5,414,154</u>	<u>\$ 494,810</u>
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**Note 3 - Detailed Notes on All Funds (Continued)**

Each governmental funds liability for bonds, compensated absences, retirement and other pension obligations and claims payable are liquidated by the respective fund.

**Bonds Payable**

Bonds payable at December 31, 2003 are comprised of the following individual issues:

\$2,053,266 - 1990 bonds for various purposes, due in annual installments of \$50,900 in June 2004 and \$19,720 in June 2005; interest at 6.8%	\$ 70,620
\$753,187 - 1990 bonds for various improvements at the Lake Isle recreational facility, due in annual installments of \$39,100 in June 2004 and \$30,280 in June 2005; interest at 6.8%	69,380
\$1,003,000 - 1995 bonds for various purposes, due in annual installments of \$85,000 in June 2004 and \$45,000 in June 2005; interest at 4.9% in 2004 and 5.0% in 2005	130,000
\$2,327,000 - 1997 bonds for various purposes, due in annual installments of \$175,000 in October 2004, \$170,000 through October 2006, \$150,000 in October 2007, \$125,000 through October 2009 and \$120,000 through October 2012; interest at 4.8% for maturities through October 2006, 4.85% for maturities in October 2007 and 4.9% for maturities through October 2012	1,275,000
\$4,710,000 - 1997 bonds for various purposes at the Lake Isle recreational facility, due in annual installments of \$335,000 in October 2004, \$355,000 in October 2005, \$375,000 in October 2006, \$395,000 in October 2007, \$420,000 in October 2008, \$440,000 in October 2009, \$460,000 in October 2010 and \$485,000 in October 2011; interest at 4.85% for maturities through October 2009 and 4.9% for maturities through October 2011	3,265,000
\$2,895,122 - 2000 bonds for various purposes, due in annual installments of \$369,044 in August 2004, \$241,434 in August 2005, \$174,381 in August 2006, \$174,433 in August 2007, \$176,433 in August 2008, \$148,932 in August 2009, \$94,350 in August 2010, \$64,574 through August 2012, \$65,576 in August 2013, \$36,738 in August 2014 and \$15,000 in August 2015; interest at 4.625% for maturities through August 2009, 4.75% for maturities through August 2011 and 5.0% for maturities through August 2015	1,625,469

\$1,000,000 - 2000 bonds for various purposes at the Lake Isle

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

recreation facility, due in annual installments of \$55,956 in August 2004, \$83,566 in August 2005, \$75,619 in August 2006, \$75,567 in August 2007, \$73,567 in August 2008, \$76,068 in August 2009, \$80,650 in August 2010, \$60,426 through August 2012, \$59,424 in August 2013 and \$73,262 in August 2014; interest at 4.625% for maturities through August 2009, 4.75% for maturities through August 2011 and 5.0% for maturities through August 2014

\$ 774,531

\$1,298,574 - 2002 bonds for various improvements at the Lake Isle recreational facility, due in annual installments of \$61,059 in February 2004, \$62,804 in February 2005, \$66,294 in February 2006, \$68,038 in February 2007, \$71,527 in February 2008, \$75,017 in February 2009, \$78,505 in February 2010, \$83,739 in February 2011, \$87,228 in February 2012, \$92,462 in February 2013, \$95,951 in February 2014, \$99,441 in February 2015, \$104,674 in February 2016, \$108,163 in February 2017 and \$113,396 in February 2018; interest at 4.125% for maturities through February 2013, 4.25% for maturities in February 2014, 4.375% for maturities through February 2017 and 4.5% for maturities in February 2018

1,268,298

\$2,423,198 - 2002 bonds for various purposes, due in annual installments of \$113,941 in February 2004, \$117,196 in February 2005, \$123,706 in February 2006, \$126,962 in February 2007, \$133,473 in February 2008, \$139,983 in February 2009, \$146,495 in February 2010, \$156,261 in February 2011, \$162,772 in February 2012, \$172,538 in February 2013, \$179,049 in February 2014, \$185,559 in February 2015, \$195,326 in February 2016, \$201,837 in February 2017 and \$211,604 in February 2018; interest at 4.125% for maturities through February 2013, 4.25% for maturities in February 2014, 4.375% for maturities through February 2017 and for maturities 4.5% in February 2018

2,366,702

\$ 10,845,000

Interest expenditures/expense of \$609,329 were recorded in the fund financial statements in the following funds.

<u>Fund</u>	<u>Amount</u>
Governmental Funds:	
General	\$ 15,159
Town Outside Villages	59,079
Highway	225,969
Special Districts	38,699
Non-Major Governmental Funds - Library	<u>844</u>
	339,750
Enterprise Fund - Lake Isle	<u>269,579</u>
	<u>\$ 609,329</u>

**Note 3 - Detailed Notes on All Funds (Continued)**

Interest expense of \$289,550 was recorded in the government-wide financial statement for governmental activities.

**Payments to Maturity**

The annual requirements to amortize all bonded debt outstanding as of December 31, 2003 including interest payments of \$2,905,656 are as follows:

Year Ending December 31, Interest	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Interest	Principal
2004	\$ 793,885	\$ 243,098	\$ 491,115	\$ 251,319	\$ 1,285,000	\$ 494,417
2005	593,350	207,254	531,650	227,571	1,125,000	434,825
2006	468,087	181,164	516,913	202,796	985,000	383,960
2007	451,395	159,769	538,605	178,341	990,000	338,110
2008	434,906	139,055	565,094	152,810	1,000,000	291,865
2009-2013	1,701,055	423,064	2,138,945	361,774	3,840,000	784,838
2014-2018	1,025,113	114,439	594,887	63,202	1,620,000	177,641
	<u>\$ 5,467,791</u>	<u>\$ 1,467,843</u>	<u>\$ 5,377,209</u>	<u>\$ 1,437,813</u>	<u>\$ 10,845,000</u>	<u>\$ 2,905,656</u>

The above general obligation bonds are direct obligations of the Town for which its full faith and credit are pledged and are payable from taxes levied on all taxable real property within the Town.

**Compensated Absences**

Civil services employees may accumulate up to 180 days of sick leave. Upon separation of service, except for termination for cause, employees may receive payment for fifty percent of the unused sick leave, up to a maximum of 75 days. Personal and compensatory time may also be accumulated. Compensatory time may be accumulated up to a maximum of 60 hours and is payable on or after December 1st of each year, or upon separation of service. According to collective bargaining agreements, police lieutenants, captains and those employees covered under the teamsters bargaining unit may accumulate an unlimited amount of sick days, however, there is no compensation for unused sick leave upon separation of service.

Vacation time may be accumulated by police lieutenants and captains. Upon retirement, these employees are compensated for unused vacation leave to a maximum of 30 days. Civil service employees, upon separation of employment, are entitled to compensation for unused vacation leave. The compensation is based on the number of years employed and, after five years, employees are fully vested. Teamsters may not accumulate vacation time.

Police captains, lieutenants and teamsters are also eligible for compensation for terminal leave upon retirement. Employees who notify the Town of their retirement one year in advance are entitled to terminal leave of 60 days which is included in the bi-weekly payroll in the final year of employment.

The value of all compensated absences has been reflected in the government-wide financial statements.

**Note 3 - Detailed Notes on All Funds (Continued)**

**Retirement Incentives and Other Pension Obligations**

The Town has elected to participate in the 1999 Retirement Incentive Program. The program provides eligible employees with an additional one month of service for each year of retirement service credited as of the date of retirement. The maximum amount of additional retirement service that can be provided under the incentive program is three years. The cost to the Town is seventy-five percent of the average of the employees' three highest year's consecutive wages. The aggregate cost of the program is \$52,489. The Town has elected to pay this obligation over a five year period, commencing in the 2000 fiscal year, with interest at 8%. The current year cost of the program was \$12,172 and was charged to the Town Outside Villages Fund expenditures in the fund financial statements. Current year pension expense charged to the government-wide financial statements was \$1,736. The balance due at December 31, 2003 was \$11,271.

Legislation approved by the State and adopted by the Town permits police officers to avail themselves of Section 384D of the Retirement and Social Security Law. This section provides that the retirement calculation for police officers will be based on one-half pay after twenty years of service, regardless of age, with compulsory retirement at age sixty-two. Enactment of this provision has resulted in a liability for past service costs relating to two police officers. The Town was notified of liabilities for these Chapter 209 costs of \$84,129 and has elected to pay this liability over five years, with interest at 8%. The current year cost of \$19,362 was charged to the Town Outside Villages Fund expenditures in the fund financial statements. Current year pension expense charged to the government-wide financial statements was \$5,130. The balance due at December 31, 2003 was \$49,897.

**Claims Payable**

The Internal Service Funds reflect workers' compensation and general liability claim liabilities. These liabilities are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors.

A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and other factors that are considered to be appropriate modifiers of past experience.

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2003

**Note 3 - Detailed Notes on All Funds (Continued)**

An analysis of the activity of unpaid claim liabilities in the Internal Service Funds is as follows:

	Year Ended December 31, 2003		Year Ended December 31, 2002	
	Workers' Compensation	General Liability	Workers' Compensation	General Liability
Balance - Beginning of Year	\$ 440,948	172,531	\$ 543,524	\$ 306,625
Provision for Claims and Claims Adjustment Expenses	550,339	70,749	205,052	(79,103)
Claims and Claims Adjustment Expenses Paid	<u>(544,579)</u>	<u>(28,680)</u>	<u>(307,628)</u>	<u>(54,991)</u>
Balance - End of Year	<u>\$ 446,708</u>	<u>\$ 214,600</u>	<u>\$ 440,948</u>	<u>\$ 172,531</u>

**K. Revenues and Expenditures**

**Interfund Transfers**

Interfund transfers are defined as the flow of assets, such as cash or goods and services, without the equivalent flow of assets in return. The interfund transfers reflected below have been reflected as transfers:

Transfers Out	Transfers In					Total
	General	Town Outside Villages	Highway	Capital Projects	Non-Major Governmental	
General	\$ -	\$ -	\$ -	\$ 5,400	\$ -	\$ 5,400
Town Outside Villages	-	-	-	20,000	7,200	27,200
Highway	-	-	-	41,933	-	41,933
Special Districts	-	-	-	10,667	-	10,667
Capital Projects	2,819	-	50,000	-	-	52,819
Non-Major Governmental	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
	<u>\$ 2,819</u>	<u>\$ 2,500</u>	<u>\$ 50,000</u>	<u>\$ 78,000</u>	<u>\$ 7,200</u>	<u>\$ 140,519</u>

**L. Post-Employment Health Care Benefits**

In addition to providing pension benefits, the Town provides certain health care benefits for retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the Town may vary according to length of service. The cost of providing post-employment health care benefits is shared between the Town and the retired employees. Substantially all of the Town's employees may become eligible for those benefits if they reach normal retirement age while working for the Town. The cost of retiree health care benefits is recognized as an expenditure/expense as claims are paid. During the year,

**Note 3 - Detailed Notes on All Funds (Continued)**

\$517,806 was paid on behalf of 97 retirees and this amount was recorded as an expenditure/expense in the various funds.

**M. Net Assets**

The components of net assets are detailed below:

*Invested in Capital Assets, net of Related Debt* - the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

*Restricted for Debt Service* - the component of net assets that reports the difference between assets and liabilities of certain assets with constraints placed on their use by Local Finance Law.

*Restricted for DARE* - the component of net assets that has been established pursuant to State authorization for unexpended gifts and donations which are restricted to use in the Town's drug awareness program.

*Restricted for Capital Projects* - the component of net assets that reports the amounts restricted for capital projects, exclusive of unexpended bond proceeds and unrestricted interest earnings.

*Restricted for Workers' Compensation Benefits* - the component of net assets that has been established to set aside funds to be used for a specific purpose in accordance with Section 6j of General Municipal Law.

*Restricted for General Liability Claims* - the component of net assets that has been established to set aside funds to be used for a specific purpose in accordance with Section 6n of General Municipal Law.

*Restricted for Special Revenue Funds* - the component of net assets that represents funds restricted for specific purposes under New York State law or by external parties and/or statutes.

*Unrestricted* - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**N. Fund Balances**

The reserved and unreserved elements of fund balance are described below:

**Reserved**

The Reserve for Prepaid Expenditures has been provided to account for employee retirement, health insurance and other payments made in advance. This reserve indicates that the funds are not "available" for appropriation or expenditure even though they are a component of current assets.

Encumbrances outstanding have been reserved as it is the Town's intention to honor the contracts in process at year-end. The subsequent year's appropriations will be amended to provide authority to complete the transactions.

**Note 3 - Detailed Notes on All Funds (Continued)**

The Reserve for Debt Service represents a segregation of the fund balance for debt service in accordance with the provisions of the Local Finance Law of the State of New York.

The Reserve for Long-Term Receivables represents funds set aside to indicate the long-term nature of taxes receivable collected for other governments. These funds are not "available" for appropriation or expenditure even though they are a component of current assets.

The Reserve for DARE has been established pursuant to State authorization for unexpended gifts and donations which are restricted to use in the Town's drug awareness program.

The Reserve for Trusts has been established to set aside funds in accordance with the terms of the grants.

**Unreserved - Designated for Subsequent Year's Expenditures**

General and Special Revenue Funds - Designations of fund balance are not legally required segregations but represent intended use for a specific purpose. At December 31, 2003, the Town Board has designated that \$987,200 of the fund balance of the General Fund, \$950,000 of the fund balance of the Town Outside Villages Fund, \$150,000 of the fund balance of the Highway Fund, \$242,000 of the fund balance of the Special Districts Fund and \$50,000 of the fund balance of the Public Library Fund be appropriated for the ensuing year's budget. However, the amount designated in the Sewer District exceeded the available fund balance by \$84.

**Note 4 - Summary Disclosure of Significant Contingencies**

**A. Litigation**

The Town, in common with other municipalities, receives numerous notices of claims for money damages arising from false arrest, property damage or personal injury. There are numerous tort claims pending against the Town. Town management has indicated there are individual tort claims for amounts in excess of insurance coverage. However, it is anticipated that insurance coverage will be sufficient to satisfy any resolution of the tort claims pending against the Town. The Town's claim administrator has reviewed the status of pending general liability and workers' compensation actions and has determined that the amounts reflected as liabilities of the internal service funds are sufficient to satisfy any payments arising therefrom.

The Town is also defendant in various claims by taxpayers for redetermination of assessed valuation and special franchises. The settlement of such claims could result in the payment of refunds by the Town. However, the amount of the possible refunds cannot be determined at the present time. Any payments resulting from such claims will be funded in the year the payment is made.

**B. Risk Management**

The Town is self-insured for general liability and workers' compensation benefits. The Town's general liability policies have a self-insured retention level of \$100,000 per claim, not to exceed an aggregate of \$400,000 for the 2003 policy year. Conventional insurance coverage has been secured for losses in excess of \$100,000 per claim and \$400,000 in the aggregate, to a maximum of \$5 million. The Town's workers' compensation policy has a self-insured retention

**Note 4 - Summary Disclosure of Significant Contingencies (Continued)**

level of \$350,000 for non-police and \$400,000 for police per occurrence for the 2003 policy year. An additional policy has been purchased for coverage above these amounts up to statutory limits.

Settled claims resulting from those risks have not exceeded commercial coverage in any of the past three fiscal years. The governmental funds are charged premiums by the respective Internal Service Fund. Accrued liabilities in the Internal Service funds include provisions for claims reported and claims incurred but not reported (IBNR's).

The Town, along with other municipal entities, participates in the Municipal Employee Benefits Consortium (MEBCO). MEBCO is a public entity risk pool currently operating as a common risk management and health insurance program for its members. MEBCO was formed in April 1988 pursuant to an act of the Board of Legislators of the County of Westchester. This act provided cities, towns and villages throughout Westchester County with an opportunity to participate in a cooperative program for providing health benefits to municipal employees by entering into an intermunicipal agreement pursuant to Article 5-G of the General Municipal Law. The purpose of the pool is to stabilize the cost of medical benefits provided to employees (see unpaid claim liabilities). MEBCO functions primarily as a claims service whereby each participating municipality retains its own risk. MEBCO does not transfer risk since charges to each municipality are ultimately determined by their individual claims/loss experience.

**C. Contingencies**

The Town participates in various Federal grant programs. These programs are subject to program compliance audits pursuant to the Single Audit Act. This audit is currently in process and the report will be issued under separate cover. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town anticipates such amounts, if any, to be immaterial.

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

To the Honorable Supervisor and Town Board of the  
Town of Eastchester, New York:

We have audited the basic financial statements of the Town of Eastchester, New York as of and for the year ended December 31, 2003, and have issued our report thereon dated February 27, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Town of Eastchester, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Eastchester, New York's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate document.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

**The Government Services Division of ODMD, LLP**  
February 27, 2004