

TOWN OF EASTCHESTER, NEW YORK  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2004  
WITH INDEPENDENT AUDITORS' REPORT

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## 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, 2004, 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 as of December 31, 2004 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted 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 stated in all material respects in relation to the basic financial statements taken as a whole.

**The Government Services Division of  
O'Connor Davies Munns & Dobbins, LLP**  
February 25, 2005

**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. 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. Governmental activities, which are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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.

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

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.

**C. 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 major 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.

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

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.

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.

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

**D. 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 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 ninety day availability period is used for revenue recognition for all other governmental fund revenues. Property taxes associated with the current fiscal period as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, certain 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.

**E. 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.

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

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.

**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, 2004, 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.

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

**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 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.

<u>Class</u>	<u>Life in Years</u>
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.

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

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 \$346,486 for real property taxes, \$7,688 for a grant received in advance and \$30,476 for parking permit fees received in advance in the General Fund. The Town has also reported deferred revenues of \$26,400 for grants received in advance in the Town Outside Villages Fund and \$48,980 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 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, 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.

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

**F. 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.

**G. 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.

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

- 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.

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. Capital Projects Fund Deficit**

Individual Capital Projects Fund project deficits arise because of expenditures exceeding current financing on the projects. These deficits will be eliminated with the subsequent receipt or issuance of authorized financing.

**D. Prior Period Adjustment**

The Town, during the 2004 fiscal year, determined that certain capital assets and accumulated depreciation has been excluded from the previous year's financial statements. As a result, an increase to the net assets reported as of January 1, 2004 of \$50,740 was required. The components of this adjustment are detailed in Note 3,E.

**Note 3 - Detailed Notes on All Funds****A. Deposits**

The carrying amount of the Town's deposits was \$7,338,175. This amount is exclusive of petty cash of \$4,002. The bank balance was \$7,612,202. Of the bank balance, \$773,764 was covered by Federal deposit insurance, \$3,900,429 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name and \$2,938,009 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, 2004 was \$2,642,611. 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, 2004 consisted of the following:

Town taxes - Current	\$ 392,770
School districts taxes - Current	21,340,586
Overdue taxes	1,213,915
Property acquired for taxes	<u>4,299</u>
	22,951,570
Less - Allowance for uncollectible taxes	<u>(15,521)</u>
	<u>\$ 22,936,049</u>

School districts taxes are offset by liabilities to the school districts which will be paid no later than April 5, 2005. Town taxes receivable in the fund financial statements are also partially offset by deferred tax revenues of \$346,486, 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 \$935,093, which represents an estimate of taxes receivable which will not be collected within the subsequent year.

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2004

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

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

The balances reflected as due from/to other funds at December 31, 2004 were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 612,703	\$ 3,025,417
Town Outside Villages	1,486,970	5,377
Highway	591,406	-
Special Districts	477,535	3,900
Capital Projects	135,313	-
Non-Major Governmental Funds	343,469	98,708
Lake Isle	-	513,994
Workers' Compensation Benefits	185,759	-
General Liability Claims	-	185,759
	<u>\$ 3,833,155</u>	<u>\$ 3,833,155</u>

The outstanding balances between funds results mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system and 3) payments between funds are made.

**E. Capital Assets**

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

<u>Class</u>	<u>Balance January 1, 2004, as Reported</u>	<u>Prior Period Adjustments*</u>	<u>Balance January 1, 2004, as Restated</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2004</u>
<b>Governmental Activities:</b>						
Capital Assets, not being depreciated:						
Land	\$ 405,131	\$ -	\$ 405,131	\$ -	\$ -	\$ 405,131
Construction-in-progress	<u>126,241</u>	<u>37,309</u>	<u>163,550</u>	<u>10,573</u>	<u>-</u>	<u>174,123</u>
Total Capital Assets, not being Depreciated	<u>\$ 531,372</u>	<u>\$ 37,309</u>	<u>\$ 568,681</u>	<u>\$ 10,573</u>	<u>\$ -</u>	<u>\$ 579,254</u>
Capital Assets, being depreciated:						
Land improvements	\$ 528,949	\$ -	\$ 528,949	\$ 85,217	\$ -	\$ 614,166
Buildings and improvements	1,270,485	-	1,270,485	-	-	1,270,485
Infrastructure	10,211,937	-	10,211,937	322,835	-	10,534,772
Machinery and equipment	<u>3,861,004</u>	<u>(5,426)</u>	<u>3,855,578</u>	<u>344,153</u>	<u>-</u>	<u>4,199,731</u>
Total Capital Assets being Depreciated	<u>15,872,375</u>	<u>(5,426)</u>	<u>15,866,949</u>	<u>752,205</u>	<u>-</u>	<u>16,619,154</u>

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2004

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

Class	Balance January 1, 2004, as Reported	Prior Period Adjustments*	Balance January 1, 2004, as Restated	Additions	Deductions	Balance December 31, 2004
Less Accumulated Depreciation for:						
Land improvements	\$ 506,358	\$ -	\$ 506,358	\$ 5,834	\$ -	\$ 512,192
Buildings and improvements	1,219,716	-	1,219,716	12,635	-	1,232,351
Infrastructure	4,585,268	(12,848)	4,572,420	470,800	-	5,043,220
Machinery and equipment	<u>2,185,170</u>	<u>(6,009)</u>	<u>2,179,161</u>	<u>317,052</u>	<u>-</u>	<u>2,496,213</u>
Total Accumulated Depreciation	<u>8,496,512</u>	<u>(18,857)</u>	<u>8,477,655</u>	<u>806,321</u>	<u>-</u>	<u>9,283,976</u>
Total Capital Assets, being Depreciated, net	<u>\$ 7,375,863</u>	<u>\$ 13,431</u>	<u>\$ 7,389,294</u>	<u>\$ (54,116)</u>	<u>\$ -</u>	<u>\$ 7,335,178</u>
Governmental Activities Capital Assets, net	<u>\$ 7,907,235</u>	<u>\$ 50,740</u>	<u>\$ 7,957,975</u>	<u>\$ (43,543)</u>	<u>\$ -</u>	<u>\$ 7,914,432</u>
<b>Business-type Activities:</b>						
Capital Assets, not being depreciated - Land	<u>\$ 3,465,000</u>	<u>\$ -</u>	<u>\$ 3,465,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,465,000</u>
Capital Assets, being depreciated:						
Buildings and improvements	\$ 10,276,144	\$ -	\$ 10,276,144	\$ -	\$ -	\$ 10,276,144
Pool facilities	2,626,901	-	2,626,901	23,143	4,650	2,645,394
Machinery and equipment	<u>1,187,567</u>	<u>-</u>	<u>1,187,567</u>	<u>52,730</u>	<u>2,938</u>	<u>1,237,359</u>
Total Capital Assets being Depreciated	<u>14,090,612</u>	<u>-</u>	<u>14,090,612</u>	<u>75,873</u>	<u>7,588</u>	<u>14,158,897</u>
Less Accumulated Depreciation for:						
Buildings and improvements	3,734,416	-	3,734,416	410,088	-	4,144,504
Pool facilities	2,354,848	-	2,354,848	18,060	4,650	2,368,258
Machinery and equipment	<u>851,969</u>	<u>-</u>	<u>851,969</u>	<u>55,075</u>	<u>2,938</u>	<u>904,106</u>
Total Accumulated Depreciation	<u>6,941,233</u>	<u>-</u>	<u>6,941,233</u>	<u>483,223</u>	<u>7,588</u>	<u>7,416,868</u>
Total Capital Assets, being Depreciated, net	<u>\$ 7,149,379</u>	<u>\$ -</u>	<u>\$ 7,149,379</u>	<u>\$ (407,350)</u>	<u>\$ -</u>	<u>\$ 6,742,029</u>
Business-type Activities Capital Assets, net	<u>\$ 10,614,379</u>	<u>\$ -</u>	<u>\$ 10,614,379</u>	<u>\$ (407,350)</u>	<u>\$ -</u>	<u>\$ 10,207,029</u>

\*See Note 2D

**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	\$	10,823
Public Safety		23,230
Transportation		680,547
Culture and Recreation		57,894
Home and Community Services		<u>33,827</u>
Total Depreciation Expense - Governmental Activities	\$	<u>806,321</u>
Business-type Activities -		
Lake Isle	\$	<u>483,223</u>

**Construction Commitments**

The Town has active construction projects as of December 31, 2004. These projects include new construction and renovations. At year end, the Town had \$190,090 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, 110 State Street, 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, 2005 are as follows:

	<u>Tier/Plan/Option</u>	<u>Rate</u>
ERS	1 75I	17.2%
	2 75I	14.7
	3 A14	11.4
	4 A15	11.4
PFRS	1 384D, 3029D	20.5
	2 384D	15.2

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2004

**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>
2004	\$ 748,210	\$ 514,653
2003	265,103	146,720
2002	75,109	3,963

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

The current ERS contribution 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	\$ 273,195
General - Community Development	18,764
Town Outside Villages	39,801
Highway	165,494
Special Districts	105,654
Public Library	87,162
Lake Isle	<u>58,140</u>
	<u>\$ 748,210</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, 2004</u>	<u>New Issues</u>	<u>Redemptions</u>	<u>Balance December 31, 2004</u>
Tax Anticipation Note	3/4/04	6/4/04	.99%	\$ -	\$ 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	2.0	<u>236,367</u>	-	<u>236,367</u>	-
				<u>\$ 565,773</u>	<u>\$ -</u>	<u>\$ 565,773</u>	<u>\$ -</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 \$7,920 on the tax anticipation note were recorded in the fund financial statements in the General Fund and in the government-wide financial statements. Interest expenditures on the bond anticipation notes of \$7,990 were recorded in the financial statements in the funds identified below. Interest expense of \$5,736 was recorded in the government-wide financial statements.

<u>Fund</u>	<u>Amount</u>
General	\$ 839
Town Outside Villages	<u>7,151</u>
	<u>\$ 7,990</u>

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2004

**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	Year of Original Issue	Maturity Date	Interest Rate	Balance January 1, 2004	New Issues	Redemptions	Balance December 31, 2004
Governmental Type Activities:							
Capital Projects Fund:							
Parkway Oval Revitalization	2002	-	- %	\$ 46,667	\$ -	\$ 46,667	\$ -
Air Compressor	2002	-	-	22,500	-	22,500	-
Highway Leaf Machine	2002	-	-	12,000	-	12,000	-
Street Resurfacing 2002	2002	-	-	140,400	-	140,400	-
Sidewalks and Curb Replacement 2002	2002	-	-	67,500	-	67,500	-
Highway Roll-off Truck	2002	-	-	149,333	-	149,333	-
Cargo Parks Van	2002	-	-	21,600	-	21,600	-
Scarsdale Avenue Streetscape	2002	-	-	90,000	-	90,000	-
Police Speed Humps	2003	-	-	20,000	-	20,000	-
Street Resurfacing 2003	2003	-	-	200,000	-	200,000	-
Sidewalks and Curb Replacement 2003	2003	-	-	195,000	-	195,000	-
Joyce Road Park	2003	-	-	65,000	-	65,000	-
Police Computer Upgrade	2003	-	-	40,000	-	40,000	-
Highway Wheel Loader	2003	-	-	120,000	-	120,000	-
Refuse Packer Truck	2003	-	-	140,000	-	140,000	-
				1,330,000	-	1,330,000	-
Business-Type Activities:							
Lake Isle Fund -							
Various Improvements	2002	-	- %	553,846	-	553,846	-
Total				\$ 1,883,846	\$ -	\$ 1,883,846	\$ -

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 \$29,127 were recorded in the fund financial statements in the following funds.

Fund	Amount
Governmental Funds:	
General	\$ 1,084
Town Outside Villages	1,112
Highway	14,066
Special Districts	2,758
	19,020
Enterprise Fund- Lake Isle	10,107
	\$ 29,127

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

Interest expense of \$14,218 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, 2004	December 31, 2003
Balance - Beginning of Year	\$ 347,353	\$ 329,382
Provision for Claims and Claims Adjustment Expenses	3,299,471	2,580,142
Claims and Claims Adjustment Expenses Paid	<u>(3,223,579)</u>	<u>(2,562,171)</u>
Balance - End of Year	<u>\$ 423,245</u>	<u>\$ 347,353</u>

The liability for health claims is reflected in the government-wide financial statements as accrued liabilities.

**J. Long-Term Liabilities**

The following table summarizes changes in the Town's long-term indebtedness for the year ended December 31, 2004:

	Balance January 1, 2004	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2004	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 5,467,791	\$ 2,502,534	\$ 793,885	\$ 7,176,440	\$ 828,551
Compensated Absences	888,178	163,509	88,178	963,509	96,350
Retirement Incentives and Other Pension Liabilities	61,168	-	26,641	34,527	16,600
Claims Payable	<u>661,308</u>	<u>1,220,903</u>	<u>851,371</u>	<u>1,030,840</u>	<u>399,900</u>
Governmental Activities Long-Term Liabilities	<u>\$ 7,078,445</u>	<u>\$ 3,886,946</u>	<u>\$ 1,760,075</u>	<u>\$ 9,205,316</u>	<u>\$ 1,341,401</u>
Business-Type Activities:					
Bonds Payable	\$ 5,377,209	\$ 510,662	\$ 491,115	\$ 5,396,756	\$ 579,645
Compensated Absences	<u>36,945</u>	<u>5,353</u>	<u>3,695</u>	<u>38,603</u>	<u>3,860</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 5,414,154</u>	<u>\$ 516,015</u>	<u>\$ 494,810</u>	<u>\$ 5,435,359</u>	<u>\$ 583,505</u>

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

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

**Bonds Payable**

Bonds payable at December 31, 2004 are comprised of the following individual issues:

\$2,053,266 - 1990 bonds for various purposes, due in June 2005; interest at 6.8%	\$ 19,720
\$753,187 - 1990 bonds for various improvements at the Lake Isle recreational facility, due in June 2005; interest at 6.8%	30,280
\$1,003,000 - 1995 bonds for various purposes, due in June 2005; interest at 5.0%	45,000
\$2,327,000 - 1997 bonds for various purposes, due in annual installments of \$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	1,100,000
\$4,710,000 - 1997 bonds for various purposes at the Lake Isle recreational facility, due in annual installments of \$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	2,930,000
\$2,895,122 - 2000 bonds for various purposes, due in annual installments of \$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	1,256,425
\$1,000,000 - 2000 bonds for various purposes at the Lake Isle recreation facility, due in annual installments of \$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	
\$1,298,574 - 2002 bonds for various improvements at the Lake Isle recreational facility, due in annual installments of \$62,804 in February 2005, \$66,294 in February 2006, \$68,038 in February	718,575

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

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

\$2,423,198 - 2002 bonds for various purposes, due in annual installments of \$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

\$ 1,207,239

\$2,502,534 - 2004 bonds for various purposes, due in annual installments of \$235,201 in April 2005, \$253,310 in April 2006, \$261,615 in April 2007, \$269,921 in April 2008, \$274,073 in April 2009, \$286,531 in April 2010, \$294,836 in April 2011, \$307,294 in April 2012 and \$319,753 in April 2013; interest at 2.75% for maturities in April 2005, 2.9% for maturities in April 2006, 3.0% for maturities through April 2010 and 3.1% for maturities through April 2013

2,252,761

\$510,662 - 2004 bonds for various purposes at the Lake Isle recreational facility, due in annual installments of \$47,995 in April 2005, \$51,690 in April 2006, \$53,385 in April 2007, \$55,079 in April 2008, \$55,927 in April 2009, \$58,469 in April 2010, \$60,164 in April 2011, \$62,706 in April 2012 and \$65,247 in April 2013; interest at 2.75% for maturities in April 2005, 2.9% for maturities in April 2006, 3.0% for maturities through April 2010 and 3.1% for maturities through April 2013

2,502,534

510,662

\$ 12,573,196

TOWN OF EASTCHESTER, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2004

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

Interest expenditures/expense of \$494,120 were recorded in the fund financial statements in the following funds.

<u>Fund</u>	<u>Amount</u>
Governmental Funds:	
General	\$ 11,466
Town Outside Villages	44,351
Highway	159,140
Special Districts	27,738
Non-Major Governmental Funds - Library	404
	<u>243,099</u>
Enterprise Fund - Lake Isle	<u>251,021</u>
	<u>\$ 494,120</u>

Interest expense of \$254,790 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, 2004 including interest payments of \$2,854,170 are as follows:

Year Ending December 31,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 828,551	\$ 285,440	\$ 579,645	\$ 243,526	\$ 1,408,196	\$ 528,966
2006	721,397	246,179	568,603	216,063	1,290,000	462,242
2007	713,010	217,187	591,990	190,057	1,305,000	407,244
2008	704,827	188,500	620,173	162,899	1,325,000	351,399
2009	687,988	160,415	647,012	134,439	1,335,000	294,854
2010-2014	2,711,341	421,859	1,963,659	275,840	4,675,000	697,699
2015-2018	<u>809,326</u>	<u>73,031</u>	<u>425,674</u>	<u>38,735</u>	<u>1,235,000</u>	<u>111,766</u>
	<u>\$ 7,176,440</u>	<u>\$ 1,592,611</u>	<u>\$ 5,396,756</u>	<u>\$ 1,261,559</u>	<u>\$ 12,573,196</u>	<u>\$ 2,854,170</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.

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

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.

**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 satisfied this obligation in the current year. 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 \$901.

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 \$19,549 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 \$4,179. The balance due at December 31, 2004 was \$34,527.

**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, 2004

**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, 2004		Year Ended December 31, 2003	
	Workers' Compensation	General Liability	Workers' Compensation	General Liability
Balance - Beginning of Year	\$ 446,708	\$ 214,600	\$ 440,948	172,531
Provision for Claims and Claims Adjustment Expenses	659,482	561,421	550,339	70,749
Claims and Claims Adjustment Expenses Paid	<u>(545,797)</u>	<u>(305,574)</u>	<u>(544,579)</u>	<u>(28,680)</u>
Balance - End of Year	<u>\$ 560,393</u>	<u>\$ 470,447</u>	<u>\$ 446,708</u>	<u>\$ 214,600</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
	Town Outside Villages	Highway	Special Districts	Capital Projects	Non-Major Governmental	
General	\$ -	\$ -	\$ -	\$ 130,043	\$ -	\$ 130,043
Town Outside Villages	-	-	-	5,377	5,400	10,777
Highway	-	-	-	37,553	-	37,553
Special Districts	-	-	-	13,856	-	13,856
Capital Projects	149	300,000	9,550	-	-	309,699
Non-Major Governmental	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
	<u>\$ 5,149</u>	<u>\$ 300,000</u>	<u>\$ 9,550</u>	<u>\$ 186,829</u>	<u>\$ 5,400</u>	<u>\$ 506,928</u>

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

Transfers are used to 1) move amounts earmarked in the operating funds to fulfill commitments for Capital Projects Fund expenditures and 2) move unexpended Capital Projects Fund balances to the operating funds that originally provided the funding.

**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, \$594,792 was paid on behalf of 99 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 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 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".

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

**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.

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, 2004, the Town Board has designated that \$1,655,000 of the fund balance of the General Fund, \$500,000 of the fund balance of the Town Outside Villages Fund, \$125,000 of the fund balance of the Highway Fund, \$97,000 of the fund balance of the Special Districts Fund and \$40,500 of the fund balance of the Public Library Fund be appropriated for the ensuing year's budget.

**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

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

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 \$380,000 for the 2004 policy year. Conventional insurance coverage has been secured for losses in excess of \$100,000 per claim and \$380,000 in the aggregate, to a maximum of \$5 million. The Town's workers' compensation policy has a self-insured retention level of \$450,000 for non-police and \$400,000 for police per occurrence for the 2004 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.