

CITY OF PORT JERVIS, NEW YORK

**Financial Statements as of
December 31, 2015
Together with
Independent Auditor's Reports**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

August 23, 2016

The Honorable Mayor and City Council of the
City of Port Jervis, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Port Jervis, New York (City) as of and for the year ended December 31, 2015 (Section 8 Housing Assistance Payment Program for the 12-month period ended September 30, 2015), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Port Jervis, New York as of December 31, 2015, and the respective changes in financial position for the year then ended (Section 8 Housing Assistance Payment Program for the 12-month period ended September 30, 2015), in accordance with accounting principles generally accepted in the United States of America.

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

Emphasis of Matter

As described in the notes to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Transition Date - an amendment of GASB Statement No. 68. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress – other post-employment benefits, proportionate share of net pension liability and contributions-pension plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CITY OF PORT JERVIS, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015

INTRODUCTION

The following Management Discussion and Analysis (MD & A) of the City of Port Jervis, New York's (City) financial statement provides an overview of the financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the basic financial statements and the accompanying notes to those statements that follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2015 are as follows:

- On the government-wide financial statements, the net position of the City at December 31, 2015 was \$9,594,527 as compared to \$11,389,911 in 2014. This decline primarily related to the liability for other post-employment benefits (OPEB), net pension liability and short-term debt issuance for capital projects. Of this total net position, all of the funds has been restricted as to use and are not available to meet the government's ongoing obligations. This trend will continue until the City is able to fund a portion of the OPEB liability and outstanding debt.
- The City's total fund balance at the end of the year was \$834,705, which represents a decrease from the prior year of \$4,082,907. The decrease was due to an increase in the expenditures in the Capital fund related to various projects within the City during the year. The primary operational funds of the City are the General and Water fund. The General Fund experienced a decrease of \$102,454 and the water fund an increase of \$143,961.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$404,944 or 3.3% of total General Fund expenditures. It should also be noted that the restricted fund balance of \$190,815 is restricted to use by the resolution of the Common Council not by law and as such could be made available for use as well making the total percentage available 5.0%. The assigned fund balance for the Water Fund is \$1,445,766 or 72% of Water Fund expenditures. The fund balance position in the Water fund is necessary to provide a positive cash position due to excessive amounts of uncollected water rents, correcting previous negative cash positions requiring inter-fund borrowing in the past. Due to the receivables only \$719,662 of the fund balance is available for operational uses. The adjusted ratio to expenditures would be 36% of expenditures. The City is also building the strength of this fund as it is desirous of adding a clarifier system to the water treatment facility which will require future bonding to implement.

FINANCIAL HIGHLIGHTS (Continued)

- During the current fiscal year, the City issued \$249,440 of capital notes.
- The City paid \$908,140 in principal on long-term debt during the year.

Overview of the Financial Statement

This MD&A is intended to serve as an introduction to the City's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's financial position in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows/inflows or resources, and liabilities, with the difference between these four categories reported as *net position*. Over time increases or decreases in net position may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information reflecting how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as underlying events giving rise to changes occur, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal periods.

Both the statement of net position and statement of activities distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general governmental support, public safety, transportation, economic opportunity and development, culture and recreation, home and community services and interest.

The government-wide financial statements can be found on the pages immediately following this section as the first two pages of the basic financial statements

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City like no other State and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and fiduciary funds.

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

FINANCIAL HIGHLIGHTS (Continued)

Fund Financial Statements – (Continued)

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General, Community Development, Section 8 Housing Assistance Payment Program, Water and the Capital Projects funds, all of which are considered to be major funds. Data for any other governmental funds are combined into a single, aggregated presentation. Individual fund data for the non-major governmental fund is provided elsewhere in the report.

The City adopts an annual appropriated budget for its General, Community Development (as proposed by the Community Development management), and Water funds. A budgetary comparison statement has been provided for these funds within the basic financial statements to demonstrate compliance with these budgets.

The financial statements for the governmental funds can be found in the basic financial statements section of this report.

Fiduciary Funds - The *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The City maintains only one type of fiduciary fund that is known as an Agency Fund. Resources are held in this fund by the City purely in a custodial capacity. The activity in this fund is limited to the receipt, temporary investment and remittance of resources to the appropriate individual, organization or government.

The financial statements for the Fiduciary Fund can be found in the basic financial statements section of this report.

Notes to financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are located following the basic financial statements section of this report.

FINANCIAL HIGHLIGHTS (Continued)

Table A-1 – Summary Statement of Net Position

One of the components of the City's net position is its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens and these assets cannot be used to liquidate debt.

| Governmental Activities | <u>2015</u> | <u>2014</u> | % change |
|----------------------------------|---------------------|----------------------|----------|
| Current Assets | \$ 9,756,884 | \$ 10,004,099 | -2.5% |
| Capital Assets, Net | <u>28,843,456</u> | <u>25,342,060</u> | 13.8% |
| Total Assets | <u>38,600,340</u> | <u>35,346,159</u> | 9.2% |
| Deferred Outflows of Resources | 125,530 | 139,477 | -10.0% |
| Current Liabilities | 6,945,977 | 2,388,777 | 190.8% |
| Non-current Liabilities | <u>23,221,433</u> | <u>21,706,948</u> | 7.0% |
| Total Liabilities | <u>30,167,410</u> | <u>24,095,725</u> | 25.2% |
| Net Position | | | |
| Net investment in capital assets | 16,972,822 | 16,787,715 | 1.1% |
| Restricted | 251,448 | 555,303 | -54.7% |
| Unrestricted | <u>(7,564,880)</u> | <u>(5,953,107)</u> | 27.1% |
| Total Net Position | <u>\$ 9,659,390</u> | <u>\$ 11,389,911</u> | -15.2% |

FINANCIAL HIGHLIGHTS (Continued)

Table A-2 – Comparative Statement of Activities

| <u>Governmental Activities</u> | <u>2015</u> | <u>2014</u> | % change |
|--|------------------------------|------------------------------|-------------|
| Program Revenue: | | | |
| Charges for services | \$ 3,576,119 | \$ 2,983,359 | 19.9% |
| Operating grants and contributions | 3,316,324 | 3,283,815 | 1.0% |
| Capital grants and contributions | 187,072 | 633,789 | -70.5% |
| General Revenue: | | | |
| Real property taxes | 4,323,611 | 4,568,418 | -5.4% |
| Other tax and non tax items | 4,158,268 | 4,112,188 | 1.1% |
| Use of money and property | 251,498 | 65,180 | 285.9% |
| Sale of property and compensation for loss | 46,992 | 91,667 | -48.7% |
| Miscellaneous | 1,034 | 21,297 | -95.1% |
| Total Revenues | <u>15,860,918</u> | <u>15,759,713</u> | 0.6% |
| Expenses: | | | |
| General government support | 2,654,443 | 2,734,030 | -2.9% |
| Public safety | 7,990,984 | 6,474,646 | 23.4% |
| Health | 3,528 | 2,773 | 0.0% |
| Transportation | 1,894,310 | 2,010,708 | -5.8% |
| Economic opportunity and development | 319,593 | 367,914 | -13.1% |
| Culture and recreation | 445,527 | 553,357 | -19.5% |
| Home and community services | 4,165,082 | 4,888,592 | -14.8% |
| Debt service interest | 239,017 | 317,182 | -24.6% |
| Total Expenses | <u>17,712,484</u> | <u>17,349,202</u> | 2.1% |
| Change in Net Position | <u>\$ (1,851,566)</u> | <u>\$ (1,589,489)</u> | |

The major changes in revenue between the years relates to the increase in real property taxes and tax items.

The change in net position is primarily due to the continued amortization of the OPEB liability and net pension activities.

FINANCIAL HIGHLIGHTS (Continued)

Table A-3 presents the cost of each of the City's governmental programs and each program's net cost of services (total cost less revenue generated by activities). The net cost shows the financial burden that was placed on the city's taxpayers by each of these functions.

| | Total Cost of Services <u>2015</u> | Net Cost of Services <u>2015</u> | Total Cost of Services <u>2014</u> | Net Cost of Services <u>2014</u> |
|-----------------------------------|--|--|--|--|
| General Government Support | 2.7 | 0.8 | \$ 2.7 | \$ 0.8 |
| Public safety | 8.0 | 7.6 | 6.5 | 6.1 |
| Health | - | - | - | - |
| Transportation | 1.9 | 1.6 | 2.0 | 1.5 |
| Economic Opportunity & Assistance | 0.3 | 0.3 | 0.4 | 0.2 |
| Culture and Recreation | 0.4 | 0.4 | 0.6 | 0.5 |
| Home and Community Services | 4.2 | (0.3) | 4.9 | 0.9 |
| Interest | 0.2 | 0.2 | 0.3 | 0.3 |
| | <u>\$ 17.7</u> | <u>\$ 10.6</u> | <u>\$ 17.4</u> | <u>\$ 10.3</u> |

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds:

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$834,705 as compared to \$4,917,612 in 2014, a decrease of \$4,082,907 from the prior year. This decrease was driven primarily by the project expenditures within the Capital Fund.

The General and Water Funds are the primary operating funds of the City. At the end of the current fiscal year, the total fund balance of the General and Water funds was \$2,341,173 as compared to 2014 at \$2,299,685.

The accounts receivable of the General Fund increased by \$50,111 and the Water Fund decreased by \$22,175. There continues to be increases of amounts due from property owners for water services. These are subject to Tax lien sales along with the property taxes. General government receivables decreased as payments were received after the reorganization of higher levels of government due staff reductions.

The results for both funds do not include the expense charges for other post-employment benefits as it does not use current funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Sale of City Owned Property

On December 31, 2015 the City sold property that was budgeted for 2016. This occurrence on December 31, 2015 was due to the desires of the buyer and the loss on the sale was therefore recorded in 2015. It was the decision of management to proceed with the sale due to the high priority of downtown revitalization and economic development. The loss on the sale of the property acquired for delinquent taxes. The property in question has been used to develop a micro-brewery and café which is scheduled to open in the Fall of 2016.

CAPITAL ASSETS, NET

The City's investment in capital assets for its government activities as of December 31, 2015 is \$28,843,456 (net of accumulated depreciation) which is an increase from 2014 as the City continues to perform infrastructure capital projects. A complete inventory of the infrastructure and associated reporting of values was completed in 2006.

Table A-4: Schedule of Capital Assets, Net

| | December 31, <u>2015</u> | December 31, <u>2014</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Construction in progress | \$ 7,016,912 | \$ 3,144,169 |
| Land | 781,035 | 781,035 |
| Land improvements | 2,803,327 | 2,793,875 |
| Buildings and improvements | 8,009,343 | 8,009,343 |
| Machinery and equipment | 11,341,424 | 10,636,526 |
| Infrastructure | <u>33,435,909</u> | <u>33,239,134</u> |
| Total | 63,387,950 | 58,604,082 |
| Less: Accumulated depreciation | <u>34,544,494</u> | <u>33,262,022</u> |
| Capital assets, net | <u>\$ 28,843,456</u> | <u>\$ 25,342,060</u> |

LONG-TERM DEBT

At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,190,000. This represents a decrease of \$555,434 as the City retired long-term debt during the year. The City maintains a 5-year needs assessment and long-term borrowing plan which it will be revising in the upcoming year to plan any future issuances. As required by New York State Law, all bonds issued by the City are general obligation bonds, backed by the full faith and credit of the City.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

City Clerk/Treasurer
City of Port Jervis
PO Box 1002
Port Jervis, New York, 12771

CITY OF PORT JERVIS, NEW YORK

**STATEMENT OF NET POSITION
December 31, 2015**

| | Primary Government | Component Unit |
|---|----------------------------|-------------------------------------|
| | Governmental Activities | Industrial Development Agency |
| ASSETS | | |
| Cash and equivalents | \$ 2,875,582 | \$ 25,828 |
| Cash - restricted | 48,370 | - |
| Receivables | | |
| Taxes, net | 1,416,975 | - |
| Accounts | 437,267 | - |
| Water rents | 682,657 | - |
| Due from other governments | 1,504,624 | - |
| State and Federal aid | 276,242 | - |
| Loans | 2,199,611 | - |
| Prepaid expenses | 315,556 | - |
| Capital assets, net | <u>28,843,456</u> | <u>-</u> |
| Total Assets | <u>38,600,340</u> | <u>25,828</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amounts on refunding bonds | 125,530 | - |
| Deferred outflows of resources - pensions | <u>1,100,930</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>39,826,800</u> | <u>25,828</u> |
| LIABILITIES | | |
| Accounts payable | 214,964 | - |
| Accrued liabilities | 1,128,049 | 2,131 |
| Due to fiduciary activities | 52,406 | - |
| Due to other governments | 1,475 | - |
| Due to school districts | 713,647 | - |
| Unearned revenues | 172,347 | - |
| Bond and tax anticipation note payable | 4,063,368 | - |
| Non-current liabilities | | |
| Net pension liability | 599,721 | - |
| Due within one year | 902,729 | - |
| Due in more than one year | <u>22,318,704</u> | <u>-</u> |
| Total Liabilities | <u>30,167,410</u> | <u>2,131</u> |
| NET POSITION | | |
| Net investment in capital assets | 16,972,822 | - |
| Restricted | 251,448 | - |
| Unrestricted | <u>(7,564,880)</u> | <u>23,697</u> |
| Total Net Position | <u>\$ 9,659,390</u> | <u>\$ 23,697</u> |

The notes are an integral part of this statement

CITY OF PORT JERVIS, NEW YORK

STATEMENT OF ACTIVITIES
DECEMBER 31, 2015

| Functions\Programs | Program Revenues | | | | Net (Expense) Revenue and Change in Net Position | |
|---|----------------------|-------------------------|--|--|---|-------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Component Unit |
| Primary government | | | | | | |
| Government activities | | | | | | |
| General government support | \$ 2,654,443 | 364,385 | 1,465,185 | \$ 25,271 | \$ (799,602) | \$ - |
| Public safety | 7,990,984 | 394,733 | 43,108 | 2,536 | (7,550,607) | - |
| Health | 3,528 | - | - | - | (3,528) | - |
| Transportation | 1,894,310 | - | 165,793 | 159,265 | (1,569,252) | - |
| Economic opportunity and assistance | 319,593 | - | - | - | (319,593) | - |
| Culture and recreation | 445,527 | 451 | 18,000 | - | (427,076) | - |
| Home and community services | 4,165,082 | 2,816,550 | 1,624,238 | - | 275,706 | - |
| Interest | 239,017 | - | - | - | (239,017) | - |
| Total Governmental Activities | <u>\$ 17,712,484</u> | <u>\$ 3,576,119</u> | <u>\$ 3,316,324</u> | <u>\$ 187,072</u> | <u>\$ (10,632,969)</u> | <u>\$ -</u> |
| Component unit | | | | | | |
| Industrial Development Agency | <u>\$ 7,340</u> | <u>\$ 3,242</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (4,098)</u> |
| General revenues: | | | | | | |
| Real property taxes | | | | | 4,323,611 | - |
| Other tax and non tax items | | | | | 4,158,268 | - |
| Use of money and property | | | | | 251,498 | - |
| Sale of property and compensation for loss | | | | | 46,992 | - |
| Miscellaneous | | | | | 1,034 | 53 |
| Total General Revenues | | | | | <u>8,781,403</u> | <u>53</u> |
| Change in Net Position | | | | | <u>(1,851,566)</u> | <u>(4,045)</u> |
| Total Net Position - beginning of year, previously reported | | | | | 11,389,911 | 27,742 |
| Cumulative Effect of Change in Accounting Principle | | | | | 121,045 | - |
| Net Position - Beginning of year, as restated | | | | | <u>11,510,956</u> | <u>27,742</u> |
| Net Position - End of year | | | | | <u>\$ 9,659,390</u> | <u>\$ 23,697</u> |

The notes are an integral part of this statement

CITY OF PORT JERVIS, NEW YORK

BALANCE SHEET GOVERNMENTAL FUNDS
DECEMBER 31, 2015

| | Special Revenue Funds | | | | | | Total Governmental Funds |
|---|-----------------------|--|---------------------|---------------------|------------------|---------------------|--------------------------------|
| | General | Section 8 Housing Assistance Payment Program | Small Cities | Water | UDAG | Capital Projects | |
| ASSETS | | | | | | | |
| Cash and equivalents | \$ 284,995 | \$ 16,245 | \$ 1,229,725 | \$ 377,702 | \$ 86,154 | \$ 880,761 | \$ 2,875,582 |
| Cash - restricted | - | 28,555 | - | 19,815 | - | - | 48,370 |
| Taxes receivable, net | 1,416,975 | - | - | - | - | - | 1,416,975 |
| Other receivables | | | | | | | |
| Accounts | 327,642 | 66,168 | - | 43,457 | - | - | 437,267 |
| Water rents | - | - | - | 682,657 | - | - | 682,657 |
| Due from other governments | 1,345,359 | - | - | - | - | 159,265 | 1,504,624 |
| State and Federal aid | 54,403 | - | - | - | - | 221,839 | 276,242 |
| Due from other funds | - | - | 8,178 | 449,802 | - | 13,935 | 471,915 |
| Loans | - | - | 2,188,610 | - | 11,001 | - | 2,199,611 |
| Prepaid expenditures | 220,630 | - | - | 69,136 | - | 25,790 | 315,556 |
| Total Assets | \$ 3,650,004 | \$ 110,968 | \$ 3,426,513 | \$ 1,642,569 | \$ 97,155 | \$ 1,301,590 | \$ 10,228,799 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 713 | \$ 45,907 | \$ 167,802 | \$ 542 | \$ - | \$ - | \$ 214,964 |
| Accrued liabilities | 1,010,826 | - | - | 117,223 | - | - | 1,128,049 |
| Due to other funds | 491,429 | - | 8,178 | - | - | 24,714 | 524,321 |
| Due to other governments | 1,475 | - | - | - | - | - | 1,475 |
| Due to school districts | 713,647 | - | - | - | - | - | 713,647 |
| Unearned revenues | 172,347 | - | - | - | - | - | 172,347 |
| Bond and tax anticipation notes payable | 63,368 | - | - | - | - | 4,000,000 | 4,063,368 |
| Compensated absences | - | 8,358 | 477 | - | - | - | 8,835 |
| Total Liabilities | 2,453,805 | 54,265 | 176,457 | 117,765 | - | 4,024,714 | 6,827,006 |
| Deferred inflows of resources | | | | | | | |
| Unearned revenue on loans | - | - | 2,181,306 | - | - | - | 2,181,306 |
| Prepaid HUD annual contribution | - | 5,972 | - | - | - | - | 5,972 |
| Unearned tax revenues | 379,810 | - | - | - | - | - | 379,810 |
| Total Liabilities and Deferred Inflows of Resources | \$ 2,833,615 | \$ 60,237 | \$ 2,357,763 | \$ 117,765 | \$ - | \$ 4,024,714 | \$ 9,394,094 |
| Fund balance | | | | | | | |
| Nonspendable | 220,630 | - | - | 69,136 | - | 25,790 | 315,556 |
| Restricted | 190,815 | 50,731 | - | 9,902 | - | - | 251,448 |
| Assigned | - | - | 1,068,750 | 1,445,766 | 97,155 | - | 2,611,671 |
| Unassigned | 404,944 | - | - | - | - | (2,748,914) | (2,343,970) |
| Total Fund Balances | 816,389 | 50,731 | 1,068,750 | 1,524,804 | 97,155 | (2,723,124) | 834,705 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 3,650,004 | \$ 110,968 | \$ 3,426,513 | \$ 1,642,569 | \$ 97,155 | \$ 1,301,590 | \$ 10,228,799 |

CITY OF PORT JERVIS, NEW YORK

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENTAL - WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

| | |
|--|---------------------|
| Fund Balances-Total Governmental Funds | \$ 834,705 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 28,843,454 |
| Deferral of income earned in the current year is recognized as revenue under the accrual basis of accounting: | |
| Real property taxes | 379,810 |
| Unearned revenues on loans | 2,187,278 |
| Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. | |
| Deferred amounts on bond refunding | 125,530 |
| Deferred outflows of resources related to pensions are applicable to future periods and therefore not reported in the funds: | 1,100,930 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Bonds payable | (6,210,545) |
| Loan payable | (287,182) |
| Capital notes payable | (263,056) |
| Capital leases | (1,333,668) |
| Compensated absences | (1,965,029) |
| Net pension liability | (599,721) |
| Retirement incentives and other pension obligations | (255,811) |
| Other post employment benefit obligations payable | <u>(12,897,305)</u> |
| Net Position of Governmental Activities | <u>\$ 9,659,390</u> |

CITY OF PORT JERVIS, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
GOVERNMENTAL FUNDS
December 31, 2015

| | General | Section 8 Housing Assistance Payment Program | Small Cities | Water | Capital Projects | UDAG | Total Governmental Funds |
|--|-------------------|--|---------------------|---------------------|-----------------------|------------------|--------------------------------|
| REVENUES | | | | | | | |
| Real property taxes | \$ 4,355,603 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,355,603 |
| Other tax items | 239,918 | - | - | - | - | - | 239,918 |
| Non-property taxes | 3,918,350 | - | - | - | - | - | 3,918,350 |
| Departmental income | 1,105,742 | - | 236,475 | 2,147,411 | - | - | 3,489,628 |
| Intergovernmental charges | 70,758 | - | - | - | - | - | 70,758 |
| Use of money and property | 251,412 | - | (86) | - | - | 172 | 251,498 |
| Licenses and permits | 47,863 | - | - | - | - | - | 47,863 |
| Fines and forfeitures | 148,239 | - | - | - | - | - | 148,239 |
| Sale of property and compensation for loss | 46,992 | - | - | - | - | - | 46,992 |
| State aid | 1,558,428 | - | - | - | 50,418 | - | 1,608,846 |
| Federal aid | 133,658 | 1,587,168 | 37,070 | - | 136,654 | - | 1,894,550 |
| Miscellaneous | 1,034 | - | - | - | - | - | 1,034 |
| Total Revenues | 11,877,997 | 1,587,168 | 273,459 | 2,147,411 | 187,072 | 172 | 16,073,279 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| General government support | \$ 1,578,446 | \$ - | \$ - | \$ 189,782 | \$ - | \$ 550 | \$ 1,768,778 |
| Public safety | 4,096,557 | - | - | - | - | - | 4,096,557 |
| Health | 3,528 | - | - | - | - | - | 3,528 |
| Transportation | 968,131 | - | - | - | - | - | 968,131 |
| Economic opportunity and development | 70,205 | - | 187,230 | - | - | - | 257,435 |
| Culture and recreation | 232,044 | - | - | - | - | - | 232,044 |
| Home and community services | 795,029 | 1,560,289 | - | 880,066 | - | - | 3,235,384 |
| Employee benefits | 3,484,396 | - | - | 487,240 | - | - | 3,971,636 |
| Capital outlay | - | - | - | - | 4,645,942 | - | 4,645,942 |
| Debt service | | | | | | | |
| Principal | 599,271 | - | - | 308,869 | - | - | 908,140 |
| Interest | 180,558 | - | - | 137,493 | - | - | 318,051 |
| Total Expenditures | 12,008,165 | 1,560,289 | 187,230 | 2,003,450 | 4,645,942 | 550 | 20,405,626 |
| Excess (Deficiency) of Revenues Over Expenditures | (130,168) | 26,879 | 86,229 | 143,961 | (4,458,870) | (378) | (4,332,347) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | 210,000 | - | - | - | 182,286 | - | 392,286 |
| Transfers out | (182,286) | - | - | - | (210,000) | - | (392,286) |
| Proceeds from capital notes | - | - | - | - | 249,440 | - | 249,440 |
| Total other financing sources (uses) | 27,714 | - | - | - | 221,726 | - | 249,440 |
| Net Change in Fund Balance | (102,454) | 26,879 | 86,229 | 143,961 | (4,237,144) | (378) | (4,082,907) |
| Fund balance - Beginning of Year | 918,843 | 23,852 | 982,521 | 1,380,843 | 1,514,020 | 97,533 | 4,917,612 |
| Fund balance - End of Year | \$ 816,389 | \$ 50,731 | \$ 1,068,750 | \$ 1,524,804 | \$ (2,723,124) | \$ 97,155 | \$ 834,705 |

CITY OF PORT JERVIS, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
December 31, 2015**

| | |
|--|-----------------------|
| Net change in fund balance | \$ (4,082,907) |
| Capital outlays, net of disposals, are expenditures in governmental funds, but are capitalized in the statement of net position | 4,891,842 |
| Disposal of assets, net | (8,243) |
| Depreciation is not recorded as an expenditures in the governmental funds, but is recorded in the statement of activities | (1,390,446) |
| Pension expense resulting from the GASB 68 related actuary reporting is not recorded as an expenditure in the government funds but is recorded in the statement of activities | (380,164) |
| Net repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position | 908,140 |
| Amortization of deferred amount from bond refunding is not recognized as expenditures in governmental funds, but is an expense in the statement of activities | 21,975 |
| Proceeds from the issuance of long-term debt is recognized as revenue in the governmental funds, but is recorded as a liability in the statement of net position | (249,440) |
| Other post-employment benefits do not require the expenditure of current resources and are therefore, not reported as expenditures in the governmental funds | (1,842,001) |
| Compensated absences do not require the expenditure of current resources and are therefore, not reported as expenditures in the governmental funds | (164,309) |
| Property tax revenue is recorded to the extent it is received within 60 days of year-end for governmental funds, but in the statement of activities, the revenue is recorded as earned | 444,673 |
| Certain revenue in the statement of activities is recognized as revenue in the government-wide statements, but not recognized as revenue under the modified accrual basis of accounting | <u>(686)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (1,851,566)</u> |

CITY OF PORT JERVIS, NEW YORK

BALANCE SHEET - FIDUCIARY FUND

December 31, 2015

| | <u>Agency</u> |
|----------------------|--------------------------|
| ASSETS | |
| Cash | \$ 331,095 |
| Due from others | 52,525 |
| Due from other funds | 52,406 |
| Prepaid expenditures | <u>750</u> |
| Total Assets | <u><u>\$ 436,776</u></u> |
| | |
| LIABILITIES | |
| Other liabilities | <u>\$ 436,776</u> |
| Total Liabilities | <u><u>\$ 436,776</u></u> |

The notes are an integral part of this statement

CITY OF PORT JERVIS, NEW YORK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Port Jervis, New York (City) was incorporated in 1907 and operates in accordance with its Charter and various other applicable laws of the State of New York. The City operates under a Mayor/Council form of government. The City Council is the legislative body responsible for overall operation. The Mayor serves as the chief executive officer and the City Treasurer serves as the chief financial officer. The City 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 City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. 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 City's more significant accounting policies:

A. Financial Reporting Entity

The financial reporting entity consists of a) the primary government which is the City, b) organizations for which the City is financially accountable and c) other organizations for which the nature and significance of their relationship with the City 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 City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the City'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, the following individual component unit is included in the City's reporting entity because of its operational relationship with the City.

The Port Jervis Industrial Development Agency (Agency) is a public benefit corporation created by State legislation to promote the economic welfare, recreation opportunities and prosperity of the City's inhabitants. Members of the Agency are appointed by the City Council. Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The City is not liable for Agency bonds or notes. The governing board of the Agency serves at the pleasure of the City Council and therefore the City is considered able to impose its will on the Agency. Since the Agency does not provide services entirely or almost entirely to the City, the financial statements of the Agency have been reflected as a discretely presented component unit. Complete financial statements may be obtained from the City of Port Jervis, Municipal Building, 14-20 Hammond Street, P.O. Box 1002, Port Jervis, and NY 12771.

The following organization is related to the City:

The Port Jervis Housing Authority was organized by an act of the New York State Legislature as a municipal housing authority created and established for the residents of the City under the Public Housing Law of the State of New York.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

B. Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position 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, except for interfund services provided and used.

The Statement of Net Position presents the financial position of the City at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is 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 City does not allocate indirect expenses to functions in the Statement of Activities.

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

C. Fund Financial Statements

The accounts of the City 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, 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 City 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 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.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2015

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

C. Fund Financial Statements (Continued)

The City's resources are reflected in the fund financial statements in two broad fund categories, in accordance with generally accepted accounting principles as follows:

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 City's major governmental funds.

General Fund - The General Fund constitutes the primary operating fund of the City and is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. The major special revenue funds of the City are as follows:

Section 8 Housing Assistance Payment Program Fund - The Section 8 Housing Assistance Payment Program Fund is provided to account for resources received and used for housing assistance payment purposes. A fiscal year ending September 30th is utilized by this fund. The major revenue of this fund is departmental Federal aid.

Small Cities Fund - The Small Cities Fund is used to account for projects financed by entitlements from the U.S. Department of Housing and Urban Development. The major revenue of this fund is the repayment of loans that originated from Federal aid.

Water Fund - The Water Fund is used to record the water utility operations of the City, which render services to the general public. The major revenue of this fund is departmental income.

UDAG Fund - The Urban Development Action Grants Fund was originally created by the receipt of federal aid and the remaining balance represents loan repayments. The City is allowed to spend the funds for economic development purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

C. Fund Financial Statements (Continued)

Fund Categories – (Continued)

- b. Fiduciary Funds (Not Included in Government-Wide Financial Statements) - are used to account for assets held by the City in an agency capacity on behalf of others. These include Agency Funds. The City's Agency Fund is primarily utilized to account for various deposits that are payable to other jurisdictions or individuals.

D. Measurement Focus, Basis of Accounting and Financial Statement 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 statements.

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, retirement incentives and other pension obligations and other post-employment benefit obligations are recorded only when payment is due. 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.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance.

Deposits and Risk Disclosure

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 City's investment policies are governed by State statutes. The City 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 City 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 City 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.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the City's name. The City's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2015.

The City was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate or credit risk.

Taxes Receivable - Real property taxes attach as an enforceable lien on real property and are levied on January 1st. The City collects City, County and school district taxes. City taxes are payable in two installments, with the first installment payable until April 30th and the second installment due by June 30th. County taxes are due January 1st and are payable without penalty until January 31st. School district taxes for the period July 1st through June 30th are collected by the City School District through November 1st at which time the City assumes the responsibility for the collection of the taxes. The City guarantees the full payment of the school district tax levy in November of the following year. The City also has the responsibility for conducting in-rem foreclosure proceedings.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance. (Continued)

The City functions in both a fiduciary and guarantor relationship with the County of Orange and the City School District with respect to the collection and payment of real property taxes levied by such jurisdictions. County taxes are payable in accordance with the tax calendar disclosed above. School district taxes are levied on July 1st and are due on September 1st, payable without penalty until September 30th. The City remits to the respective jurisdictions all taxes as collected. County taxes which are uncollected at September 30th are funded by tax anticipation notes. The proceeds from the notes are used to satisfy the City's obligation to the County. In January, the amount of the tax anticipation note is added to the County's tax levy. The City, during the subsequent County collection period, retains sufficient amounts to redeem the tax anticipation note. With respect to school district taxes, the City is required to satisfy the warrant in November of the next succeeding year. Thus, the City retains a fiduciary relationship with the City School District for fourteen months, at which time the City must satisfy the warrant. The collection of school district taxes is deemed a financing transaction until the warrant is satisfied.

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

Due From/To Other Funds - During the course of its operations, the City 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, 2015, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Loans Receivable - Loans receivable consist of residential and commercial loans made by the City through the Community Development Program. The loans have various interest rates and maturities.

Inventories - There are no inventory values presented in the balance sheets of the respective funds of the City. 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\Prepaid Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method the government-wide and fund financial statements. Prepaid expenses/expenditures consist of employee retirement 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.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance. (Continued)

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City 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 value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

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.

Land and construction-in-progress are not depreciated. Property, machinery and equipment, and infrastructure of the City are depreciated using the straight line method over the following estimated useful lives.

| <u>Class</u> | <u>Life in years</u> |
|---------------------------|----------------------|
| Land improvements | 20 |
| Building and improvements | 20-50 |
| Machinery and equipment | 5-30 |
| Infrastructure | 15-40 |

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 sheets.

Unearned Revenues - Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In government-wide financial statements, unearned revenues consist of amounts received in advance and/or grants received before the eligibility requirements have been met. Unearned 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 City has reported unearned revenues of \$172,347 for amounts received in advance in the General Fund. Such amounts have been deemed to be measurable but not "available" pursuant to accounting principles generally accepted in the United States of America.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance. (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reported deferred outflows of resources of \$125,530 for a deferred loss on refunding of bonds and \$1,100,930 for pensions in the government-wide Statement of Net Position. This amount resulted from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The City has reported deferred inflows of resources of \$379,810 for real property taxes in the General Fund, \$5,972 of prepaid annual contribution in the Section 8 Housing Assistance Program Fund, and \$2,181,306 unearned revenues on outstanding loans. These amounts are deferred and recognized as revenue in the period that the amount becomes available.

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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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 General, Water or Capital Projects funds expenditures.

Compensated Absences - The various collective bargaining agreements provide for the payment of accumulated sick leave upon separation of service. The liability for such accumulated leave is reflected in the government-wide Statement of Net Assets 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.

CITY OF PORT JERVIS, NEW YORK

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance. (Continued)

Net Position - Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets, restricted for debt service and special revenue funds. The balance is classified as unrestricted.

Fund Balance - Generally, fund balance represents the difference between current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard the fund balance classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (prepaid amounts) or they are legally or contractually required to be maintained intact and totaled \$315,556 at December 31, 2015 for all governmental funds.

Restricted fund balance is reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification is used to report funds that are restricted for debt service obligations and for other items contained in General Municipal Law of the State of New York and totaled \$251,448 at December 31, 2015 for all governmental funds.

Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to formal action of the entity's highest level of decision making authority. The City Council is the highest level of decision making authority for the City that can, by adoption of a resolution prior to end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the City removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain amounts established and approved by the City's board.

Assigned fund balance, in the General Fund, represents amounts constrained either by policies of the City Council for amounts assigned for balancing the subsequent year's budget or the City Treasurer for amounts assigned as encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund.

Assigned fund balance in all other governmental funds represents any positive remaining amounts after classifying nonspendable, restricted or committed fund balance amounts and totaled \$2,611,671 at December 31, 2015 for all governmental funds excluding the general fund.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance. (Continued)

Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows of resources, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows of resources.

In order to calculate the amounts to report as restricted and unrestricted fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: committed, assigned, and unassigned.

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 and Water funds. Encumbrances outstanding at year-end are reported as assigned 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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

H. Newly Adopted Accounting Standards

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of Statement No. 68 is to establish accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. The City adopted the provisions of Statement No. 68 for the year ending December 31, 2015.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 1 - NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

H. Newly Adopted Accounting Standards (Continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Transition Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City adopted the provisions of this Statement in conjunction with GASB Statement No. 68, for the year ending December 31, 2015.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

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

- a) Prior to October 1st, the head of each administrative unit shall submit to the budget officer an estimate of 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 Mayor on or before October 15th.
- c) The Mayor shall review the tentative budget and may make such changes, alterations and revisions as are considered advisable and which are consistent with law. Upon completion of such review, the tentative budget and any modifications as approved by the Mayor shall become the preliminary budget.
- d) On or before November 15th, the Mayor shall present to the City Council a preliminary budget.
- e) On or before November 30th, a public hearing shall be held on the preliminary budget.
- f) After the public hearing, the City Council may further change, alter and revise the preliminary budget subject to provisions of the law.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued) DECEMBER 31, 2015

NOTE 2 -STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Data (Continued)

- g) The preliminary budget as submitted or amended shall be adopted by resolution not later than December 31st.
- h) Formal budgetary integration is employed during the year as a management control device for General and Water funds.
- i) Budgets for General and Water 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 by the City Council for the Community Development Fund, Section 8 Housing Assistance Payment Program Fund and the UDAG Fund.
- j) The City Council 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 City Council. Any modification to appropriations resulting from an increase in revenue estimates or supplemental reserve appropriations also require a majority vote by the City Council.
- k) Appropriations in the General and Water 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 City Council.

In 2015, general fund actual expenditure exceeded the budget by \$31,868.

B. Property Tax Limitation

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five year average full valuation of taxable real estate located within the City, exclusive of the amount raised for the payment of interest on and redemption of long-term debt. The City Council has further restricted this limit to 1.5%. In accordance with this latter amount, the maximum amount of the levy for 2015 was \$9,327,477, inclusive of exclusions, which exceeded the actual levy by \$4,939,163.

On June 24, 2011, the Governor signed Chapter 97 of the Laws of 2011 ("Tax Levy Limitation Law"). This applies to all local governments.

The Tax Levy Limitation Law restricts the amount of real property taxes that may be levied by a City in a particular year, beginning with the 2012 year. It was set to expire on June 16, 2016, but in June 2015, it was extended four more years.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 2 -STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Property Tax Limitation (Continued)

The following is a brief summary of certain relevant provisions of the Tax Levy Limitation Law. The summary is not complete and the full text of the Tax Levy Limitation Law should be read in order to understand the details and implementations thereof.

The Tax Levy Limitation Law imposes a limitation on increases in the real property tax levy, subject to certain exceptions. The Tax Levy Limitation Law permits the City to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor," which is the lesser of one and two-one hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the 20 National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by (ii) The average of the National Consumer Price Indexes determined by the United States with the result expressed as a decimal to four places.

The City is required to calculate its tax levy limit for the upcoming year in accordance with the provision above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The Tax Levy Limitation Law sets forth certain exclusions to the real property tax levy limitation of the City, including exclusions for certain portions of the expenditures for retirement system contributions and tort judgments payable by the City. The City Council may adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the City Council first enacts, by a vote of at least sixty percent of the total voting power of the City Council, a local law to override such limit for such coming fiscal year.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Cash

At December 31, 2015, all of the City's cash balances were either insured or collateralized with securities held by the pledging financial institutions' trust department in the City's name.

| | <u>Bank Balance</u> | <u>Carrying Amount</u> |
|---|---------------------|------------------------|
| Cash, including trust funds | \$ 3,742,661 | \$ 3,255,047 |
| Collateralized with securities held by the financial institution's trust department or agent in the City's name | \$ 2,492,661 | |
| Covered by FDIC insurance | <u>1,250,000</u> | |
| Total | <u>\$ 3,742,661</u> | |

B. Taxes Receivable

Taxes receivable at December 31, 2015, consisted of the following:

| | |
|---|---------------------|
| City and County taxes - Current and overdue | \$ 278,879 |
| School District taxes - Current and overdue | 713,647 |
| Tax Liens | 424,449 |
| Property acquired for taxes | <u>691,924</u> |
| | 2,108,899 |
| Allowance for uncollectible taxes | <u>(691,924)</u> |
| | <u>\$ 1,416,975</u> |

School district taxes are offset by liabilities to the school district, which will be satisfied in a subsequent period. Taxes receivable are also partially offset by unearned tax revenues of \$379,810, which represents an estimate of the taxes receivable which will not be collected within the first sixty days of the subsequent year.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

C. Due From/To Other Funds

The balances reflected as due from/to other funds at December 31, 2015 were as follows:

| <u>Fund</u> | <u>Due From</u> | <u>Due To</u> |
|------------------|-------------------|-------------------|
| General | \$ - | \$ 491,429 |
| Water | 449,802 | - |
| Capital Projects | 13,935 | 24,714 |
| Small Cities | 8,178 | 8,178 |
| Trust and Agency | 52,406 | - |
| | <u>\$ 524,321</u> | <u>\$ 524,321</u> |

The outstanding balances between funds result 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.

D. Capital Assets, Net

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

| <u>Governmental Activities</u> | <u>January 1, 2015 Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>December 31, 2015 Balance</u> |
|--|--|---------------------|------------------|--|
| Capital Assets, not being depreciated | | | | |
| Land | \$ 781,035 | \$ - | \$ - | \$ 781,035 |
| Construction-in-progress | 3,144,169 | 3,872,743 | - | 7,016,912 |
| Total Capital Assets not being depreciated | <u>3,925,204</u> | <u>3,872,743</u> | <u>-</u> | <u>7,797,947</u> |
| Capital Assets, being depreciated | | | | |
| Land improvements | 2,793,875 | 9,452 | - | 2,803,327 |
| Buildings and improvements | 8,009,343 | - | - | 8,009,343 |
| Machinery and equipment | 10,636,526 | 821,115 | 116,217 | 11,341,424 |
| Infrastructure | 33,239,134 | 196,775 | - | 33,435,909 |
| Total Capital Assets being depreciated | <u>54,678,878</u> | <u>1,027,342</u> | <u>116,217</u> | <u>55,590,003</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 1,009,208 | 152,351 | - | 1,161,559 |
| Buildings and improvements | 4,674,516 | 133,672 | - | 4,808,188 |
| Machinery and equipment | 5,939,714 | 614,558 | 107,974 | 6,446,298 |
| Infrastructure | 21,638,584 | 489,865 | - | 22,128,449 |
| Total Accumulated Depreciation | <u>33,262,022</u> | <u>1,390,446</u> | <u>107,974</u> | <u>34,544,494</u> |
| Total Capital Assets, net | <u>\$ 25,342,060</u> | <u>\$ 3,509,639</u> | <u>\$ 8,243</u> | <u>\$ 28,843,456</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans

Plan Description

The City 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 noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the entire length of service.

For employees who joined after April 1, 2012, employees contribute 3% of their salary until April 1, 2013, and then contribute 3% to 6% of their salary throughout their active membership. Under the authority of the NYSRSSL, the Comptroller certifies annually the rates expressed as proportions of payroll of members, which is used in computing the contributions required to be made by employers to the pension accumulation fund.

The City is required to contribute at an actuarially determined rate. The required contributions for the Plan's current fiscal year and the two preceding years were:

| | | <u>ERS</u> | | <u>PFRS</u> |
|------|----|------------|----|-------------|
| 2015 | \$ | 480,534 | \$ | 650,430 |
| 2014 | | 552,355 | | 731,798 |
| 2013 | | 501,643 | | 658,202 |

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

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

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

- For State fiscal year (SFY) 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pensions' costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5 percent of the employee's covered pensionable salaries.

This law requires all participating employers to make payments on the current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ended March 31, 2005 through 2008. The City did not elect to amortize any amounts under this law.

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For state fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the System's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on the current basis while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program. The total unpaid liability at the end of the fiscal year was \$255,810, which is reported in the Statement of Net Position as a long-term liability.

| | Original Amount <u>Amortized</u> | Balance at <u>January 1, 2015</u> | <u>Payments</u> | Balance at <u>December 31, 2015</u> | Due in <u>One Year</u> |
|------|--|--------------------------------------|------------------|--|---------------------------|
| ERS | \$ 189,188 | \$ 170,269 | 18,919 | 151,350 | 18,919 |
| PFRS | <u>130,576</u> | <u>117,518</u> | <u>13,058</u> | <u>104,460</u> | <u>13,058</u> |
| | <u>\$ 319,764</u> | <u>\$ 287,787</u> | <u>\$ 31,977</u> | <u>\$ 255,810</u> | <u>\$ 31,977</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State Employee Retirement System

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

At December 31, 2015, the City reported a liability of \$371,662 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2015, the City's proportion was 0.0011016 percent, which was an increase of 0% from its proportion measured December 31, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$380,164. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 11,897 | \$ - |
| Changes of Assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 64,553 | - |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | 17,431 | - |
| Contributions subsequent to the measurement date | 492,094 | - |
| Total | <u>\$ 585,975</u> | <u>\$ -</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|------------------------------|------------|-------------------|
| Plan's Year Ending March 31, | 2016 | \$ 515,565 |
| | 2017 | 23,470 |
| | 2018 | 23,470 |
| | 2019 | 23,470 |
| | 2020 | - |
| | Thereafter | - |
| | | <u>\$ 585,975</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State Employee Retirement System (Continued)

Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The total pension liability for the March 31, 2014 measurement date was determined by using an actuarial valuation as of April 1, 2014. The actuarial valuation used the following actuarial assumptions:

| | |
|---------------------------|--|
| Actuarial cost method | Entry age normal |
| Inflation | 2.70% |
| Salary scale | 4.9 percent indexed by service |
| Projected COLAs | 1.4% compounded annually |
| Decrements | Developed from the Plan's 2010 experience study of the period April 1, 2005 through March 31, 2010 |
| Mortality improvement | Society of Actuaries Scale MP-2014 |
| Investment Rate of Return | 7.5% compounded annually, net of investment expenses |

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below:

| <u>Asset Type</u> | <u>Long Term Expected Real Rate</u> | |
|-------------------------|-------------------------------------|-------------|
| | <u>2015</u> | <u>2014</u> |
| Domestic Equity | 7.3% | 7.3% |
| International Equity | 8.6% | 8.6% |
| Private Equity | 11.0% | 11.0% |
| Real Estate | 8.3% | 8.3% |
| Absolute Return | 6.8% | 6.8% |
| Opportunistic Portfolio | 8.6% | 8.6% |
| Real Asset | 8.7% | 8.7% |
| Bonds, Cash & Mortgages | 4.0% | 4.0% |
| Cash | 2.3% | 2.3% |
| Inflation Indexed Bonds | 4.0% | 4.0% |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State Employee Retirement System (Continued)

Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Assumption

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) or 1 percent higher (8.5%) than the current rate:

| | 1 % Decrease <u>(6.5%)</u> | Current <u>Assumption (7.5%)</u> | 1% Increase <u>(8.5%)</u> |
|--|-------------------------------|-------------------------------------|------------------------------|
| Proportionate Share of Net Pension liability (asset) | \$ 2,477,289 | \$ 371,662 | \$ (1,406,009) |

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2015, were as follows:

| | Pension Plan's Fiduciary Net Position | City's proportionate share of Plan's Fiduciary Net Position | District's allocation percentage as determined by the Plan |
|---|---|--|---|
| Total pension liability | \$164,591,504,000 | \$ 18,107,699 | 0.0110016% |
| Net position | <u>(161,213,259,000)</u> | <u>(17,736,038)</u> | 0.0110016% |
| Net pension liability (asset) | <u>\$ 3,378,245,000</u> | <u>\$ 371,661</u> | 0.0110016% |
| Fiduciary net position as a percentage of total pension liability | 97.9% | 97.9% | |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State and Local Police and Fire Retirement System

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

At December 31, 2015, the City reported a liability of \$228,059 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2015, the City's proportion was 0.0828524 percent, which was an increase of 0% from its proportion measured December 31, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$668,753. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 27,502 | \$ - |
| Changes of Assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 76,567 | - |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | 47,388 | - |
| Contributions subsequent to the measurement date | <u>363,498</u> | - |
| Total | <u>\$ 514,955</u> | <u>\$ -</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|------------------------------|------------|-------------------|
| Plan's Year Ending March 31, | 2016 | \$ 397,617 |
| | 2017 | 34,120 |
| | 2018 | 34,120 |
| | 2019 | 34,120 |
| | 2020 | 14,978 |
| | Thereafter | - |
| | | <u>\$ 514,955</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State and Local Police and Fire Retirement System (Continued)

Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The total pension liability for the March 31, 2014 measurement date was determined by using an actuarial valuation as of April 1, 2014. The actuarial valuation used the following actuarial assumptions:

| | |
|---------------------------|--|
| Actuarial cost method | Entry age normal |
| Inflation | 2.70% |
| Salary scale | 6.0 percent indexed by service |
| Projected COLAs | 1.4% compounded annually |
| Decrements | Developed from the Plan's 2010 experience study of the period April 1, 2005 through March 31, 2010 |
| Mortality improvement | Society of Actuaries Scale MP-2014 |
| Investment Rate of Return | 7.5% compounded annually, net of investment expenses |

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

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State and Local Police and Fire Retirement System (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below:

| <u>Asset Type</u> | <u>Long Term Expected Real Rate</u> | |
|-------------------------|-------------------------------------|-------------|
| | <u>2015</u> | <u>2014</u> |
| Domestic Equity | 7.3% | 7.3% |
| International Equity | 8.6% | 8.6% |
| Private Equity | 11.0% | 11.0% |
| Real Estate | 8.3% | 8.3% |
| Absolute Return | 6.8% | 6.8% |
| Opportunistic Portfolio | 8.6% | 8.6% |
| Real Asset | 8.7% | 8.7% |
| Bonds, Cash & Mortgages | 4.0% | 4.0% |
| Cash | 2.3% | 2.3% |
| Inflation Indexed Bonds | 4.0% | 4.0% |

Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plans (Continued)

New York State and Local Police and Fire Retirement System (Continued)

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) or 1 percent higher (8.5%) than the current rate:

| | 1 % Decrease (6.5%) | Current Assumption (7.5%) | 1% Increase (8.5%) |
|--|------------------------|---------------------------------|-----------------------|
| Proportionate Share of Net Pension liability (asset) | \$ 3,036,488 | \$ 228,059 | \$ (2,125,573) |

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2015, were as follows:

| | Pension Plan's Fiduciary Net Position | City's proportionate share of Plan's Fiduciary Net Position | District's allocation percentage as determined by the Plan |
|---|---|--|---|
| Total pension liability | \$ 28,474,417 | \$ 23,592 | 0.0828524% |
| Net position | (28,199,157) | (23,364) | 0.0828524% |
| Net pension liability (asset) | <u>\$ 275,260</u> | <u>\$ 228</u> | 0.0828524% |
| Fiduciary net position as a percentage of total pension liability | 99.0% | 99.0% | |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

F. Short-Term Non-Capital Borrowings

The schedule below details the changes in short-term non-capital borrowings. These borrowings consisted of notes issued in anticipation of the collection of real property taxes.

| | Balance <u>1/1/2015</u> | <u>New Issues</u> | <u>Redemptions</u> | Balance <u>12/31/2015</u> |
|--|----------------------------|---------------------|--------------------|------------------------------|
| Tax Anticipation Note - 1.79%, Due 1/29/16 | \$ - | \$ 63,368 | \$ - | \$ 63,368 |
| Tax Anticipation Note - 1.58%, Due 1/30/15 | 37,712 | - | 37,712 | - |
| Bond Anticipation Note - 1.00% Due 1/21/2016 | <u>-</u> | <u>4,000,000</u> | <u>-</u> | <u>4,000,000</u> |
| | <u>\$ 37,712</u> | <u>\$ 4,063,368</u> | <u>\$ 37,712</u> | <u>\$ 4,063,368</u> |

G. Long-Term Liabilities

The following table summarizes changes in the City's long-term liabilities for the year ended December 31, 2015:

| | Balance <u>January 1, 2015</u> | New issues <u>Additions</u> | Maturities and/or <u>Payments</u> | Balance <u>December 31, 2015</u> | Due within <u>One year</u> |
|--|-----------------------------------|--------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Bonds Payable | \$ 6,745,434 | \$ - | \$ 555,434 | \$ 6,190,000 | \$ 515,000 |
| Plus: Unamortized premium on bonds | <u>22,997</u> | <u>-</u> | <u>2,452</u> | <u>20,545</u> | <u>2,452</u> |
| Total Bonds Payable | 6,768,431 | - | 557,886 | 6,210,545 | 517,452 |
| State Loan Payable | 358,977 | - | 71,795 | 287,182 | 71,795 |
| Capital Notes Payable | 183,636 | 211,237 | 131,817 | 263,056 | 101,818 |
| Capital Lease | 1,243,301 | 239,461 | 149,094 | 1,333,668 | 182,139 |
| Compensated Absences | 1,809,511 | 164,355 | - | 1,973,866 | - |
| State Retirement Systems' Payable | 287,788 | - | 31,977 | 255,811 | 31,977 |
| Net Pension Liability | - | 599,721 | - | 599,721 | - |
| Other Post Employment Benefit Obligations Payable | <u>11,055,304</u> | <u>1,842,001</u> | <u>-</u> | <u>12,897,305</u> | <u>-</u> |
| Total Other Non- Current Liabilities | <u>14,938,517</u> | <u>3,056,775</u> | <u>384,683</u> | <u>17,610,609</u> | <u>387,729</u> |
| Government Activities Long - Term liabilities | <u>\$ 21,706,948</u> | <u>\$ 3,056,775</u> | <u>\$ 942,569</u> | <u>\$ 23,821,154</u> | <u>\$ 905,181</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Liabilities (Continued)

Bonds Payable

Bonds payable at December 31, 2015, are comprised of the following issues:

| Purpose | Year of Issue | Original Issue Amount | Final Maturity | Interest Rate | Outstanding at December 31, 2015 |
|------------------|---------------|-----------------------|----------------|---------------|----------------------------------|
| Various Purposes | 2002 | 1,305,000 | 6/2017 | 4.375-4.60% | 245,000 |
| Fire Truck | 2005 | 610,000 | 7/2015 | 3.875-4.00% | - |
| Refunding Bonds | 2005 | 2,895,000 | 3/2024 | 4.10% | 1,890,000 |
| Various Purposes | 2009 | 1,408,320 | 9/2024 | 4.0-4.30% | 990,000 |
| Various Purposes | 2013 | 3,185,433 | 9/2033 | 4.0-4.50% | 3,065,000 |
| | | | | | <u>\$ 6,190,000</u> |

Below are the future maturities for all of the serial bonds, capital leases and state loan outstanding at December 31, 2015:

| Year Ending December 31, | Bonds | | Loan | Capital Leases | | Capital Notes | |
|--------------------------|---------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-----------------|
| | Principal | Interest | Principal | Principal | Interest | Principal | Interest |
| 2016 | \$ 515,000 | 355,107 | \$ 71,795 | \$ 272,160 | \$ 41,374 | \$ 101,818 | \$ 4,603 |
| 2017 | 535,000 | 322,973 | 71,795 | 187,596 | 35,915 | 161,237 | 2,822 |
| 2018 | 425,000 | 293,169 | 71,795 | 122,697 | 2,990 | - | - |
| 2019 | 440,000 | 265,694 | 71,797 | 127,219 | 25,470 | - | - |
| 2020 | 455,000 | 237,432 | - | 131,908 | 90,778 | - | - |
| 2021-2025 | 2,200,000 | 772,709 | - | 418,493 | 46,793 | - | - |
| 2026-2030 | 940,000 | 188,282 | - | 73,595 | 1,716 | - | - |
| 2031-2035 | 680,000 | - | - | - | - | - | - |
| | <u>\$ 6,190,000</u> | <u>\$ 2,435,366</u> | <u>\$ 287,182</u> | <u>\$ 1,333,668</u> | <u>\$ 245,036</u> | <u>\$ 263,055</u> | <u>\$ 7,425</u> |

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

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Liabilities (Continued)

Compensated Absences

In accordance with existing collective bargaining agreements, all employees are entitled to accumulate a maximum of one hundred eighty days of sick leave. Upon retirement, death or permanent disability, employees will be compensated for accumulated leave at current pay rates. Employees will be compensated for vacation leave earned the year of retirement. The City's liability for accumulated sick and vacation leave has been reflected in the government-wide financial statements.

Other Post Employment Benefit Obligations

In addition to providing pension benefits, the City 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 City may vary according to length of service. The cost of providing post-employment health care benefits is shared between the City and the retired employee. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as an expenditure as claims are paid within the government funds. The City has recognized revenues and expenditures of \$24,075 for Medicare Part D payments made directly to its health insurance carrier on behalf of its retirees.

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution, (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be done under the pay-as-you-go approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a normal cost, an actuarial accrued liability, and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The City is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Other Post Employment Benefit Obligations

The amortization basis is the level percentage of payroll method with a closed amortization approach with 25 years remaining in the amortization period. The actuarial assumptions included a 4% investment rate of return. The City currently has no assets set aside for the purpose of paying post-employment benefits. The actuarial cost method utilized was the projected unit credit method.

The City's net OPEB obligation at December 31, 2015, is as follows:

| | |
|--|-----------------------------|
| Annual required contribution | \$ 2,658,361 |
| Interest on Net OPEB Obligation | 442,213 |
| Adjustment to annual required contribution | <u>(571,882)</u> |
| Annual OPEB cost | 2,528,692 |
| Contributions made | <u>686,691</u> |
| Increase in Net OPEB obligation | 1,842,001 |
| Net OPEB obligation - beginning of year | <u>11,055,304</u> |
| Net OPEB obligation - end of year | <u><u>\$ 12,897,305</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current and two preceding years is as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| 12/31/2015 | \$ 2,658,361 | 25.83% | \$ 12,897,305 |
| 12/31/2014 | 2,418,477 | 26.00% | 11,055,034 |
| 12/31/2013 | 2,123,524 | 31.10% | 9,265,586 |

The schedule of funding progress for the OPEB plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

H. Net Position and Fund Balance Classifications

In the government-wide statements there are three classes of net position:

Net Investment in Capital Assets – consists of net capital assets (Cost less accumulated depreciation), plus unexpended debt proceeds, reduced by outstanding balances of related debt obligations from the acquisition, construction, or improvement of those assets.

Restricted Net Position - reports net position when constraints placed on the assets are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - reports all other net position that does not meet the definition of restricted or net investment in capital assets and are deemed available for general use by the City.

In the fund financial statements there are five classifications of fund balance:

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually are required to be maintained intact. Nonspendable fund balance includes prepaid expenditures in the General and Water Funds.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditor, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The General Fund has restricted fund balance of \$190,815 for debt service, the Section 8 Housing Assistance Payment Program has \$50,731 restricted for the HAP program, and the Water Fund has \$9,902 restricted for future capital expenditures at December 31, 2015.

Committed fund balance – Includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the City Council. The City has no committed fund balance at December 31, 2015.

Assigned fund balance – Includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. All special revenue and capital funds' fund balance is considered assigned as it is intended to be used for the nature of the fund. The General Fund has no assigned fund balance at December 31, 2015.

Unassigned fund balance in the General Fund represents amounts not classified as nonspendable, restricted or assigned.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

H. Net Position and Fund Balance Classifications (Continued)

Order of Fund Balance Spending Policy

The City's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable funds are determined first and then restricted fund balance for specific purposes is determined. Any remaining fund balance amounts for funds other than the general fund are classified as assigned fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The City, in common with other municipalities, receives numerous notices of claims for money damages arising from false arrest, property damage or personal injury. Of the claims pending, none are expected to have a material effect on the City, if adversely settled.

The City is a defendant in pending certiorari proceedings, the results of which could require the payment of future tax refunds by the City, if existing assessment rolls are modified based on the outcome of the litigation proceedings. The amount of the possible refunds cannot be determined at the present time. Any payments pursuant to such judgments will be funded in the year in which the payment is made.

The City is party to threatened litigation as a result of a hazardous waste site identified on City owned property. The City's environmental engineering consultants and New York State Department of Environmental Conservation representatives have estimated that a final remediation of the property and DEC past remediation costs could cost up to \$7.5 million. Counsel cannot estimate the ultimate loss or the likelihood of a favorable outcome with regard to this matter.

In June 2014, the City signed an Order of Consent with the New York State Department of Environmental Conservation with regard to a sanitary sewer line break and release of sewage from the City's sewage collection system in February 2013. The City is required to complete an engineering study that includes prioritizing recommendations of corrective actions and a schedule for implementation. The ultimate cost of these improvements cannot be quantified at this time.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2015

NOTE 4 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Risk Management

The City purchases various conventional liability insurance policies to provide against potential losses. The general liability policy provides coverage of \$1 million per occurrence and \$2 million in the aggregate. The police professional liability policy provides coverage of \$1 million per occurrence and the public officials and employee's liability policy provides coverage with limits up to \$1 million. The City also maintains an excess liability policy with an additional \$10 million of coverage. Conventional health and workers compensation insurance for City employees is provided by various carriers. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

C. Grants

The City received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior years' experience, the City's management believes such amounts, if any, will be immaterial.

D. Commitments

The City has various commitments with contractors for the completion of capital projects.

NOTE 5 – CHANGE IN ACCOUNTING PRINCIPLE

In June 2012, GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal year ending December 31, 2015. In November 2013, GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*, effective for fiscal year ending December 31, 2015. Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions as well as non-employer governments that have a legal obligation to contribute to this plans. Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68.

Implementation of GASB 68 and 71 resulted in a restatement of beginning net position as follows:

| | <u>Net Pension Liability</u> | <u>Deferred outflows of Resources</u> | <u>Net Position</u> |
|---|----------------------------------|---|-------------------------|
| Balance at December 31, 2014, as previously reported | \$ - | \$ - | \$ 11,389,911 |
| Restatement of beginning balance - Adoption of GASB Statement No. 68 | | | |
| NYS Employee Retirement System Plan | (497,148) | 414,266 | (82,882) |
| NYS Police and Fire Retirement System Plan | <u>(344,922)</u> | <u>548,849</u> | 203,927 |
| | <u>(842,070)</u> | <u>963,115</u> | <u>121,045</u> |
| Balance at December 31, 2014, as restated | <u>\$ (842,070)</u> | <u>\$ 963,115</u> | <u>\$ 11,510,956</u> |

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2015

NOTE 6 – ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is required to adopt the provisions of this Statement for the year ending December 31, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* and amends certain provisions of Statement No. 67 *Financial Reporting for Pension Plans*. The objective of this Statement is to improve the usefulness of information about pensions included in general purpose external financial reports of state and local governments for making decisions and accessing accountability. This Statement establishes requirements for defined contribution plans and defined benefit pensions not within the scope of Statement 68, *Accounting and Financial Reporting for Pensions*, as well as, assets accumulated for the purpose of providing for those pensions. Statement 73 also clarifies the application of certain provisions of Statements 67 and 68 with regards to information required to be presented in the notes, accounting and financial information reporting for separately financed specific liabilities and the timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation. The City is required to adopt the provisions of this Statement for the year ending December 31, 2017.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans – a replacement of GASB Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, as amended and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Also, it includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The objective of this Statement is to improve the effectiveness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local government OPEB plans. It provides for decision-useful information, supporting assessments of accountability and inter-period equity, and additional transparency. This statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet specified criteria. The City is required to adopt the provisions of this Statement for the year ending December 31, 2017, with early adoption encouraged.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 6 – ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

(Continued)

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to establish standards for recognizing and measuring liabilities, expenditures and deferred inflows of resources related to other postemployment benefit plans (OPEB). In regards to defined benefit OPEB plans, this statement defines the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employment service. This Statement also details recognition and disclosure requirements for employers with payables to defined benefit OPEB plans administered through trusts and for employers whose employees are provided with defined contribution OPEB plans. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018, with early adoption encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74, and 82. Statement No. 76 reduces the number of categories of authoritative generally accepted accounting principles (GAAP) hierarchy and the framework for selecting those principles to two categories. The primary category “Category A” will consist of officially established GASB Statements and GASB Interpretations heretofore issued and currently in effect. The second category “Category B” will consist of GASB Technical Bulletins, GASB Implementation Guides when presented in the form of a *Comprehensive Implementation Guide*, and literature of the AICPA cleared by the GASB. The goal of Statement No. 76 is to help governments apply financial reporting guidance with less variability, therefore improving usefulness and comparability of financial statement information among state and local governments. The City is required to adopt the provisions of Statement No. 76 for the year ending December 31, 2016, and should be adopted retroactively, with early adoption permitted.

In August 2015, the GASB issued Statement *No. 77 Tax Abatement Disclosures*. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The City is required to adopt the provisions of these Statements for the year ending December 31, 2016, with early adoption encouraged.

CITY OF PORT JERVIS, NEW YORK

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2015

NOTE 6 – ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

(Continued)

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, Financial Reporting for pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GAS 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement addresses issues related to the presentation of payroll related measures in required supplementary information, selection of assumptions and the treatment of deviations and classification of payments made by employers to meet employee contribution requirements. The Statement takes effect for reporting periods beginning after June 15, 2016 except for the selection of assumptions in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end in which the effective date is on or after June 15, 2017. Earlier adoption is encouraged.

The City has not assessed the impact of these statements on its future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PORT JERVIS, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
December 31, 2015**

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|-------------------|---|
| | Original Budget | Final Budget | Actual | |
| REVENUES | | | | |
| Real property taxes | \$ 4,599,030 | 4,618,645 | \$ 4,355,603 | \$ (263,042) |
| Other tax items | 73,000 | 176,000 | 239,918 | 63,918 |
| Non-property taxes | 4,025,000 | 4,010,000 | 3,918,350 | (91,650) |
| Departmental income | 1,002,777 | 936,680 | 1,105,742 | 169,062 |
| Intergovernmental charges | 74,000 | 110,790 | 70,758 | (40,032) |
| Use of money and property | 78,743 | 179,142 | 251,412 | 72,270 |
| Licenses and permits | 62,100 | 58,300 | 47,863 | (10,437) |
| Fines and forfeitures | 158,000 | 168,000 | 148,239 | (19,761) |
| Sale of property and compensation for loss | 5,000 | 47,000 | 46,992 | (8) |
| State aid | 1,598,485 | 1,572,962 | 1,558,428 | (14,534) |
| Federal aid | 157,178 | 97,678 | 133,658 | 35,980 |
| Miscellaneous | - | 1,600 | 1,034 | (566) |
| Total Revenues | 11,833,313 | 11,976,797 | 11,877,997 | (98,800) |
| EXPENDITURES | | | | |
| General government support | 1,680,366 | 1,487,128 | 1,578,446 | (91,318) |
| Public safety | 3,881,368 | 3,844,416 | 4,096,557 | (252,141) |
| Health | - | - | 3,528 | (3,528) |
| Transportation | 1,055,375 | 877,097 | 968,131 | (91,034) |
| Economic opportunity and development | 155,993 | 48,275 | 70,205 | (21,930) |
| Culture and recreation | 296,160 | 351,358 | 232,044 | 119,314 |
| Home and community services | 581,479 | 832,259 | 795,029 | 37,230 |
| Employee benefits | 3,505,605 | 3,721,274 | 3,484,396 | 236,878 |
| Debt service | | | | |
| Principal | 492,441 | 630,466 | 599,271 | 31,195 |
| Interest | 184,526 | 184,524 | 180,558 | 3,966 |
| Total Expenditures | 11,833,313 | 11,976,797 | 12,008,165 | (31,368) |
| Deficiency of revenues over expenditures | - | - | (130,168) | (130,168) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | - | - | 210,000 | 210,000 |
| Operating transfers out | - | - | (182,286) | (182,286) |
| Total other financing sources (uses) | - | - | 27,714 | 27,714 |
| Net Change in Fund Balance | - | - | (102,454) | (102,454) |
| Fund balance - beginning of Year | 918,843 | 918,843 | 918,843 | - |
| Fund balance - End of Year | \$ 918,843 | \$ 918,843 | \$ 816,389 | \$ (102,454) |

CITY OF PORT JERVIS, NEW YORK

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS

December 31, 2015

| <u>Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accrued Liability</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Unfunded Liability as a Percentage of Covered Payroll</u> |
|-----------------------|----------------------------------|--|---|---------------------|------------------------|--|
| 7/1/2014 | \$ - | \$ 29,690,610 | \$ 29,690,610 | \$ - | \$ 5,626,513 | 527.7% |
| 7/1/2014 | \$ - | \$ 28,099,455 | \$ 28,099,455 | \$ - | \$ 4,822,150 | 582.7% |
| 7/1/2012 | \$ - | \$ 22,342,192 | \$ 22,342,192 | \$ - | \$ 4,600,800 | 485.6% |

See Independent auditor's report.

CITY OF PORT JERVIS, NEW YORK

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Last 10 Fiscal Years (Dollar amounts displayed in thousands) | | | | | | | | | |
|---|--|------|------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN | | | | | | | | | | |
| (Thousands) | | | | | | | | | | |
| Proportion of the net pension liability (asset) | 0.011016% | | | | | | | | | |
| Proportionate share of the net pension liability (asset) | \$372 | | | | | | | | | |
| Covered-employee payroll | \$2,754 | | | | | | | | | |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 13.50% | | | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 97.9% | | | | | | | | | |

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

| | Last 10 Fiscal Years (Dollar amounts displayed in thousands) | | | | | | | | | |
|---|--|------|------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN | | | | | | | | | | |
| (Thousands) | | | | | | | | | | |
| Proportion of the net pension liability (asset) | 0.082852% | | | | | | | | | |
| Proportionate share of the net pension liability (asset) | \$228 | | | | | | | | | |
| Covered-employee payroll | \$2,873 | | | | | | | | | |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 7.94% | | | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 99.0% | | | | | | | | | |

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

CITY OF PORT JERVIS, NEW YORK

SCHEDULE OF CONTRIBUTIONS - PENSION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Last 10 Fiscal Years (Dollar amounts displayed in thousands) | | | | | | | | | |
|--|--|------|------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN | | | | | | | | | | |
| (Thousands) | | | | | | | | | | |
| Contractually required contribution | \$ 569 | | | | | | | | | |
| Contributions in relation to the contractually required contribution | 569 | | | | | | | | | |
| Contribution deficiency (excess) | \$ - | | | | | | | | | |
| Covered-employee payroll | \$ 2,754 | | | | | | | | | |
| Contributions as a percentage of covered-employee payroll | 20.66% | | | | | | | | | |

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

| | Last 10 Fiscal Years (Dollar amounts displayed in thousands) | | | | | | | | | |
|--|--|------|------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN | | | | | | | | | | |
| (Thousands) | | | | | | | | | | |
| Contractually required contribution | \$ 811 | | | | | | | | | |
| Contributions in relation to the contractually required contribution | 811 | | | | | | | | | |
| Contribution deficiency (excess) | \$ - | | | | | | | | | |
| Covered-employee payroll | \$ 2,873 | | | | | | | | | |
| Contributions as a percentage of covered-employee payroll | 28.25% | | | | | | | | | |

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

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

August 23, 2016

The Honorable Mayor and Common Council of the
City of Port Jervis, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Port Jervis, New York (City), as of and for the year ended December 31, 2015 (Section 8 Housing Assistance Payment Program for the 12-month period ended September 30, 2015), and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 23, 2016.

Internal Control over Financial Reporting

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

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

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

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(Continued)

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

Compliance and Other Matters

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

Purpose of this Report

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

August 23, 2016

The Honorable Mayor and the City Council of the
City of Port Jervis, New York:

Report on Compliance for Each Major Federal Program

We have audited the City of Port Jervis, New York's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE (Continued)

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CITY OF PORT JERVIS, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-through Numbers | Federal Expenditures | Expended to Sub-Recipients |
|---|------------------------|-------------------------|-------------------------|-------------------------------|
| U.S. Department of Agriculture/ Summer Food Service Program for Children | 10.559 | N/A | \$ 5,083 | \$ - |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | <u>2,616,421</u> | <u>-</u> |
| Total U.S. Department of Agriculture | | | <u>2,621,504</u> | <u>-</u> |
| U.S. Department of Housing and Urban Development/ Section 8 Housing Choice Voucher Program | 14.871 | N/A | 1,566,905 | - |
| Passed through New York State Homes and Community Renewal Office/ Community Development Block Grant/State's program | 14.228 | 938ED597-04 | <u>134,118</u> | <u>-</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,701,023</u> | <u>-</u> |
| U.S. Department of Justice/ Bulletproof Vest Partnership Program | 16.607 | N/A | <u>797</u> | <u>-</u> |
| U.S. Department of Transportation/ Passed through New York State Department of Transportation/ Highway Planning and Construction | 20.205 | various | 139,091 | - |
| Formula Grants for Rural Areas program | 20.509 | N/A | <u>54,533</u> | <u>-</u> |
| Total U.S. Department of Highway and Construction | | | <u>193,624</u> | <u>-</u> |
| U.S. Department of Health and Human Services/ Passed through County of Orange/ Special Programs for the Aging - Title III, Part C - Nutrition Services | 93.045 | N/A | <u>66,439</u> | <u>-</u> |
| U.S. Department of Homeland Security/ Passed Through New York State Division of Homeland Security and Emergency Services/ Disaster Grants - Public Assistance | 97.036 | PA071-59388-00 | <u>7,603</u> | <u>-</u> |
| | | | <u>\$ 4,590,990</u> | <u>-</u> |

CITY OF PORT JERVIS, NEW YORK

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City of Port Jervis, New York (City), under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or the respective changes in financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the City's general ledger.

The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. PASS-THROUGH PROGRAMS

Where the City receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than the CFDA numbers, which may be assigned by pass through grantors are not maintained in the City's financial management system. The City has identified certain pass-through identifying numbers and included them in the Schedule, as available.

4. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent that such costs are included in the federal financial reports used as the source document for the data presented.

5. MATCHING COSTS

Matching costs, i.e. the City's share of certain program costs, are not included in the reported expenditures.

6. NON-CASH ASSISTANCE

The City did not receive nonmonetary assistance for the year ended December 31, 2015.

CITY OF PORT JERVIS, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether financial statements where prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

•Material weakness (es) identified?

Yes No

•Significant deficiency(is) identified not considered to be material weaknesses?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal Control over major programs:

•Material weakness(es) identified?

Yes No

•Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and waste disposal systems for rural communities

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

CITY OF PORT JERVIS, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None