INCORPORATED VILLAGE OF BAYVILLE
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
AS OF MAY 31, 2015
TOGETHER WITH AUDITOR'S REPORTS

NawrockiSmith
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Incorporated Village of Bayville:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Incorporated Village of Bayville (the "Village"), as of and for the year ended May 31, 2015, and the related notes to financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, each major fund and the fiduciary funds of the Incorporated Village of Bayville, as of May 31, 2015, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 schedule of funding progress for the retiree health plan, on pages 3-12, 42 and 43 respectively, 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 ("GASB"), 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 response 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Incorporated Village of Bayville's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2015, on our consideration of the Village'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 Village's internal control over financial reporting and compliance.

Melville, New York
August 25, 2015

Nawrocki Smith LLP

(1) Summary of significant accounting policies

The fund financial statements of the Incorporated Village of Bayville (the "Village") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

A. Financial reporting entity

The Village of Bayville, which was incorporated in 1919, is governed by the General Municipal Law, Village Law, other general laws of the State of New York and various local laws. The Village Board of Trustees is the legislative body responsible for overall operations. The Mayor serves as chief executive officer and the Village Administrator serves as chief fiscal officer.

The Village provides water service, refuse disposal, street maintenance and lighting, snow removal and recreational activities for its residents.

All governmental activities and functions performed for the Incorporated Village of Bayville are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

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

B. Basis of presentation

1. Village-wide financial statements

The Statement of Net Position and the Statement of Activities present financial information about the Village's governmental activities. These financial statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between program expenses and revenues for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits and depreciation expense, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund financial statements

The fund financial statements provide information about the Village's funds, including fiduciary funds. Separate financial statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Village records its transactions in the fund types described below.

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

   General Fund - the principal operating fund which includes all operations not required to be recorded in other funds.

   Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The following Special Revenue Funds are utilized:

   i. Water Fund - used to account for water operations not required to be accounted for on an enterprise basis.

   ii. Recreation Fund - used to account for the expenditure of all fees received specifically to maintain the recreational facilities of the Village.

   iii. Special Grant Fund - used to account for funds received as Community Development Block Grants pursuant to the Community Development Act of 1974, Public Law 93-383.

   Capital Projects Fund - used to account for financial resources to be used for the acquisition or construction or resurfacing of major capital facilities and equipment.

   Debt Service Fund - used to account for current payments of principal and interest on general obligation long-term debt and for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness.

b. Fiduciary Funds - used to account for assets held by the local government in a trustee or custodial capacity:

   Agency Funds - used to account for money (and/or property) received and held in the capacity of trustee, custodian or agent. The Village accounts for the Justice Court as an agency fund.

Private-Purpose Trust Funds - accounts for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. Established criteria govern the use of the funds and members of the Village or representatives of the donors may serve on committees to determine who benefits.

C. Basis of accounting/Measurement focus

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

Modified accrual basis - the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within a reasonable period of time after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, installment purchase debt, judgments and claims, other post-employment benefits and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Material revenues that are accrued include real property taxes, State and Federal aid, sales tax and certain user charges. If expenditures are the prime factor for determining eligibility, revenues from State and Federal grants are accrued when the expenditure is made and the resources are available.

Accrual basis - the Village-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Village gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Fixed assets and long-term liabilities related to these activities are recorded within the funds.

D. Property taxes

Real property taxes are levied annually no later than June 1, and become delinquent on July 2. Taxes are collected during the period from June 1 to the fourth Tuesday of July of the subsequent year, when they become a lien.

In accordance with Real Property Tax Law, Section 1454, all unpaid taxes on the fourth Tuesday of July of the subsequent year, are enforced by tax sale. In all cases where no bid is made on a parcel of land offered for sale for an amount sufficient to pay tax, interest and charges, the premises are deemed to have been sold to and purchased by the Village.

E. Interfund transactions

Interfund transactions have been eliminated from the Village-wide financial statements. In the fund financial statements, interfund transactions include:

1. Interfund revenues

Interfund revenues represent amounts charged for services or facilities provided by one fund to another fund. The amounts paid by the fund receiving the benefits of the service or the facilities are reflected as an expenditure of the fund receiving the service.

2. Transfers

Interfund transfers represent payments to/from other funds for reimbursement of costs paid by one fund for another fund or funding for capital projects.

F. Cash and cash equivalents/investments

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit with maturities of less than three months from the date acquired by the Village. Investments are stated at cost, which approximates market.

G. Receivables

Receivables include amounts due from Federal, State and other governments or entities for services provided by the Village. Receivables are recorded and revenues are recognized as earned or as specific program expenditures are incurred.

H. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by contractual agreements and regulations.

I. Capital assets

Capital assets are reported at actual cost or estimated historical costs, based on appraisals conducted by independent third-party professionals. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital assets accounts), depreciation methods, and estimated useful lives of capital assets reported in the Village-wide financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	$ 5,000	Straight line	50 years
Non-building improvements	$ 5,000	Straight line	20 years
Furniture, fixtures, machinery and equipment	$ 5,000	Straight line	5-50 years
Infrastructure systems:			
Roads, curbs and sidewalks	$ 5,000	Straight line	25-30 years
Water mains	$ 5,000	Straight line	50 years
Drainage	$ 5,000	Straight line	50 years

J. Deferred outflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, 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.

K. Deferred inflows of resources/unearned revenues

Deferred inflows of resources are defined as an acquisition of net position by the government that is applicable to future periods. Deferred inflows are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues arise when the Village receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Village has legal claim to the resources, the deferred inflow/unearned revenue is removed and revenues are recorded.

L. Long-term obligations

The liabilities for long-term obligations consisting of general obligation bonds payable, compensated absences, judgments and claims payable and other post-employment benefits are recognized in the Village-wide financial statements.

In the fund financial statements, long-term obligations are not reported as liabilities. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures when paid.

M. Compensated absences

Employees accrue vacation leave based primarily on the number of years employed up to a maximum rate of 30 days a year. Upon separation from service, employees are paid up to 30 days.

Employees accrue sick leave at the rate of 8 days per year and may accumulate such credits up to a total of 96 days. Employees who terminate are paid up to 72 days, at the employees existing regular rate of pay.

Vested vacation and sick leave is recorded in governmental funds as a fund liability and expenditures, if payable from current resources. The liability for compensated absences decreased by $20,647 during the year to $201,563.

N. Post-employment benefits

In addition to providing pension benefits, the Village provides health insurance coverage and survivor benefits for retired employees and their survivors that meet the requirements within the Village's policies. Substantially all of the Village's employees may become eligible for these benefits if they reach normal retirement age while working for the Village. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Village recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. The liability for other post-employment benefits is recorded as a long-term obligation in the Village-wide financial statements.

During the year ended May 31, 2015, $90,816 was paid on behalf of 9 retirees and recorded as an expenditure in the General Fund.

O. Net position

In the Village-wide financial statements, there can be three classes of net position:

1. Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

2. Restricted - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

3. Unrestricted - is the amount of net position, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund financial statements

In the fund financial statements, there can be five classifications of fund balance:

1. Nonspendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes prepaid expenses recorded in the Village's various funds in the amount of $57,931.

2. Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Village has no restricted fund balances as of May 31, 2015.

3. Committed - Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, i.e. the Board. The Village has no committed fund balances as of May 31, 2015.

4. Assigned - Includes amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for tax stabilization arrangements. All encumbrances of the General Fund are classified as Assigned Fund Balance as of May 31, 2015 and amounted to $15,840.

5. Unassigned - includes all other General Fund net assets (fund balance) that does not meet the definition of the above four classifications and are deemed to be available for general use by the Village.

Fund balances for all governmental funds as of May 31, 2015 were distributed as follows:

	General	Water	Recreation	Capital Projects	Total Governmental Funds
Nonspendable					
Prepaid expenses	$ 54,505	$ 3,426	$ -	$ -	$ 57,931
Total nonspendable	54,505	3,426	-	-	57,931
Assigned					
Recreation fund	-	-	145,805	-	145,805
Encumbrances	15,840	-	-	-	15,840
Total assigned	15,840	-	145,805	-	161,645
Unassigned	1,027,984	(320,271)	-	(570,833)	136,880
Total	$ 1,098,329	$ (316,845)	$ 145,805	$ (570,833)	$ 356,456

Order of Use of Fund Balance:

The Village'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 fund balances are determined first and then restricted fund balances for specific purposes are 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.

P. Insurance

The Village assumes the liability for most risk including, but not limited to, property damage and personal injury liability. The Village maintains insurance policies in amounts and on terms generally standard for municipalities to insure against these liabilities. These insurance policies limit the overall exposure to Village assets by providing a third party insurer to assume the risk and liabilities relating to claims.

Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

(2) Explanation of certain differences between fund financial statements and Village-wide financial statements

Due to the differences in the measurement focus and basis of accounting used in the fund financial statements and the Village-wide financial statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A. Total fund balances of governmental funds vs. net position of governmental activities

Total fund balances of the Village's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental funds Balance Sheet.

B. Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) and the Statement of Activities fall into one of three broad categories. The categories are shown below:

1. Long-term revenue/expense differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital related differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on fund financial statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund financial statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund financial statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

(3) Stewardship, compliance and accountability

Budgetary data

1. Budget policies

   a. No later than March 31, the Village Administrator submits a tentative budget to the Village Board of Trustees for the fiscal year commencing the following June 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.

   b. After public hearings are conducted to obtain taxpayer comments, no later than May 1, the Village Board of Trustees adopts the budget.

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

2. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the governmental funds. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end. However, encumbrances reserved against fund balances are re-appropriated in the ensuing year. Encumbrances are reported as assigned fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget basis of accounting

Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

4. Deficit fund balance

Individual funds with total fund deficits as of May 31, 2015 were as follows:

	Fund Deficit Unassigned	Total Fund Balance (Deficit)
Water Fund	$ (320,271)	$ (316,845)
Capital Projects Fund	(570,833)	(570,833)

The Water Fund deficit is due to major unanticipated repairs to the Village's water distribution system. This deficit may be eliminated by interfund transfers in the upcoming year.

The Capital Projects Fund deficit resulted from the Village spending more money than was received. The Village will eliminate this deficiency in the coming years with the issuance of permanent financing and grants.

(4) Cash and cash equivalents - custodial risk, concentration of credit, interest rate and foreign currency risks

The Village's investment policies are governed by State statutes. In addition, the Village has its own written investment policy. Village monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Village Administrator is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and villages.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least 105 percent of the cost of the repurchase agreement.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

Custodial credit risk - deposit/investments: Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

GASB 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 with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name

Deposits and investments at year-end were entirely covered by federal depository insurance or by collateral held by the Village's custodial banks in the Village's name. All deposits, including certificates of deposit, are carried at cost plus accrued interest. They consisted of:

Fund	Bank Balance	Carrying Amount	
General	$ 669,862	$ 571,868	Insured (FDIC) and collateral held by Village's custodial bank.
Water	96,468	72,650	Insured (FDIC) and collateral held by Village's custodial bank.
Recreation	169,340	156,103	Insured (FDIC) and collateral held by Village's custodial bank.
Special Grant	6,049	6,049	Insured (FDIC) and collateral held by Village's custodial bank.
Capital Projects	149,471	146,539	Insured (FDIC) and collateral held by Village's custodial bank.
Fiduciary Funds	111,500	109,427	Insured (FDIC) and collateral held by Village's custodial bank.
	$ 1,202,690	$ 1,062,636	

Credit risk: State law limits investments to those authorized by State statutes. The Village has a written investment policy.

Interest-rate risk: Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid potential loss.

Concentration of credit risk: Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of 5 percent or more in securities of a single issuer.

As of May 31, 2015, the Village did not have any investments subject to credit risk, interest-rate risk, or concentration of credit risk.

(5) Interfund balances and activity

Interfund receivable and payable balances as of May 31, 2015 primarily represent payment of capital expenditures that will be reimbursed subsequent to year end. Interfund transfer balances as of May 31, 2015 represent budgeted transfers from the General Fund to fund Capital Projects Fund projects. Balances at year end are stated as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	$ 447,017	$ 6,215	$ -	$ 225,978
Water Fund	6,196	403,565	-	2,072
Recreation Fund	18	10,316	10,000	-
Capital Projects Fund	-	33,093	218,050	-
Fiduciary Funds	-	42	-	-
	$ 453,231	$ 453,231	$ 228,050	$ 228,050

(6) Capital assets

A summary of changes in capital fixed assets follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	$ 5,713,291	$ -	$ -	$ 5,713,291
Total nondepreciable assets	5,713,291	-	-	5,713,291
Capital assets that are depreciated:				
Land improvements	1,825,488	-	-	1,825,488
Buildings and building improvements	10,155,732	-	-	10,155,732
Furniture and equipment	1,457,591	124,947	(33,400)	1,549,138
Total depreciable assets	13,438,811	124,947	(33,400)	13,530,358
Less accumulated depreciation:				
Land improvements	1,511,915	182,549	-	1,694,464
Buildings and building improvements	6,625,095	338,524	-	6,963,619
Furniture and equipment	1,373,990	128,135	(33,400)	1,468,725
Total accumulated depreciation	9,511,000	649,208	(33,400)	10,126,808
Total depreciated assets, net	$ 9,641,102	$ (524,261)	$ -	$ 9,116,841

Depreciation expense was charged to governmental functions as follows:

General government support	$ 183,298
Public safety	62,428
Transportation	157,419
Culture and recreation	31,247
Home and community services	214,816
	$ 649,208

(7) Short-term debt

Liabilities for bond anticipation notes ("BANs") and tax anticipation notes ("TANs") are generally accounted for in the General Fund and Capital Projects Fund. The notes or renewal thereof may not extend more than five years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

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

	Beginning Balance	Issued	Redeemed	Ending Balance
BAN maturing on 6/17/15 at 1.00%	$ -	$ 700,000	$ -	$ 700,000

(8) Long-term debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable	$ 3,635,000	$ 3,270,000	$ 3,635,000	$ 3,270,000	$ 365,000
Other post-employment benefits	2,345,909	488,308	90,816	2,743,401	-
Unfunded accrued LOSAP pension liability	650,631	47,744	-	698,375	698,375
Installment purchase debt payable	22,119	-	5,653	16,466	6,074
Judgments and claims payable	10,000	-	-	10,000	10,000
Compensated absences	222,210	-	20,647	201,563	-
Total long-term liabilities	$ 6,885,869	$ 3,806,052	$ 3,752,116	$ 6,939,805	$ 1,079,449

Outstanding indebtedness aggregated $3,286,466. This amount was subject to the constitutional debt limit and represented approximately 4.2% of its debt limit.

Serial bonds - The Village borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the Schedule of Non-current Governmental Liabilities.

The following is a summary of maturity of long-term bond indebtedness:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 5/31/15
Serial Bonds	4/1/2015	12/1/2023	2.00%	$ 3,270,000

The following table summarizes the Village's future debt service requirements:

Fiscal year Ended May 31,	Serial Bonds Principal	Serial Bonds Interest	Installment Purchase Debt Principal	Installment Purchase Debt Interest
2016	$ 365,000	$ 51,433	$ 6,074	$ 384
2017	360,000	56,800	4,673	318
2018	365,000	49,600	4,673	318
2019	370,000	42,250	1,046	53
2020	380,000	34,800	-	-
2021-2024	1,430,000	63,700	-	-
	$ 3,270,000	$ 298,583	$ 16,466	$ 1,073

Interest on long-term debt for the year was comprised of:

Interest paid	$ 128,499
Less interest accrued in the prior year	(41,452)
Plus interest accrued in the current year	4,261
Interest expense	$ 91,308

Other long-term debt - in addition to the above long-term debt, the Village had the following non-current liabilities:

Other post-employment benefits - represents the amortized portion of the annual required contribution for the Village's cost of health benefits for retirees.

Unfunded accrued LOSAP pension liability - represents the unfunded portion of the pension fund.

Installment purchase debt payable - represents the remaining installments due on the purchase of equipment.

Judgments and claims payable - represents the remaining monies due on judgments given on the Village.

Compensated absences - represents the value of earned and unused portion of the liability for compensated absences.

(9) Pension plans

General information

The Village participates in the New York State and Local Employees' Retirement System ("ERS") and the Public Employees' Group Life Insurance Plan. These are cost-sharing, multiple-employer, retirement systems (collectively the "Systems"). The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Provisions and administration

The Systems provide retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law ("NYSRSSL") governs obligations of employers and employees to contribute, and benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. As set forth in the NYSRSSL the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the Systems and for the custody and control of their funds.

Funding policy

The Systems are noncontributory except for employees who joined ERS after July 27, 1976 and prior to January 1, 2010, employees contribute 3% to 3.5% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, for their entire working career. With the exception of ERS tier V and VI employees, employees in ERS more than ten years are no longer required to contribute. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The required contributions for the current year and two preceding years were:

2015	$	260,130
2014		298,757
2013		234,045

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems: (a) requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible and (b) changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (i.e. billings due February 2014 would be based on the pension value as of March 31, 2013).

(10) Length of Service Awards Program ("LOSAP" or "program")

The Village's financial statements are presented for the year ended May 31, 2015. However, the information contained in this note is based on information for the Length of Service Awards Program for the plan year ending on June 30, 2015, which is the most recent plan year for which complete information is available.

Program description

The Village established a defined benefit LOSAP for the active volunteer firefighters of the Bayville Fire Company #1, Inc. The program took effect on July 1, 1994. The program was established pursuant to Article 11A of the General Municipal Law. The program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters. The Village is the Sponsor of the program.

Participation, vesting and service credit

Active volunteer firefighters who have reached the age of 18 and who have completed 1 year of firefighting service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with 5 years of firefighting service or upon attaining the program's entitlement age. The program's entitlement age is 65. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the Sponsor on the basis of a statutory list of activities and point values. A participant may also receive credit for 5 years of firefighting service rendered prior to the establishment of the program.

Benefits -

A participant's benefit under the program is the actuarial equivalent of a monthly payment for life equal to $20 multiplied by the person's total number of years of firefighting service. The number of years of firefighting service used to compute the benefit cannot exceed forty. Except in the case of disability or death, benefits are payable when a participant reaches entitlement age. The program provides statutorily mandated death and disability benefits.

Fiduciary investment and control -

Service credit is determined by the governing board of the Sponsor, based on information certified to the governing board by each fire company having members who participate in the program. Each fire company must maintain all required records on forms prescribed by the governing board.

The governing board of the Sponsor has retained and designated Volunteer Firemen's Insurance Services, Inc. ("VFIS"), a division of Glatfelter Insurance Group, to assist in the administration of the program. The designated program administrator's functions include Installation Assistance including: Specimen Adoption Agreement; Specimen Master Plan; Insurance Applications; Participant Enrollment Forms; Explanation of Benefits; Benefit Certificates and Administrative Assistance; Reminder letter to sponsor with Census for current anniversary date provided annually; Participant's benefit calculation at the time of termination or retirement for verification by the Plan Sponsor; Member Census and Premium Analysis Report provided annually; Valuation and recommended deposit provided annually; Summary of required contribution; Actuarial review; and Recommended Program enhancement as appropriate. Disbursements of program assets for the payment of benefits or administrative expenses must be approved. The following is an explanation of the process for approving disbursements:

Payment of benefits -

Entitlement benefits - VFIS prepares and submits to the Sponsor a Verification of Benefits Statement and an Annuity Enrollment Form for participants active at entitlement age and for vested participants upon termination from the Program. Following review for accuracy, the Sponsor signs and returns the paperwork to VFIS authorizing VFIS to disburse entitlement benefits.

Death benefits - Upon notification from the Sponsor of a participant death, VFIS prepares a Verification of Benefits Statement and a Lump Sum Death Benefit Form. Following review for accuracy, the Sponsor signs and returns the paperwork accompanied by a death certificate to VFIS authorizing VFIS to disburse a death benefit.

Disability benefits - Upon notification from the Sponsor of a participant total and permanent disability, VFIS prepares a Verification of Benefits Statement, a Physician Statement Form, and a Lump Sum Disability Benefit Form. Following review for accuracy, the Sponsor signs and returns the paperwork authorizing VFIS to disburse a disability benefit.

Payment of administrative expenses -

Per the executed Service Fee Agreement, the Sponsor agrees to payment as contracted.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. Program assets are held in compliance with GML Article 11A 217(j).

Authority to invest program assets is vested in the Hartford Life Insurance Company. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule.

The Sponsor is required to retain an actuary to determine the amount of the Sponsor's contributions to the plan. The actuary retained by the Sponsor for this purpose is VFIS through Glatfelter Insurance Group. Portions of the following information are derived from a report prepared by the actuary dated August 8, 2014.

Program financial condition -

Actuarial present value of vested benefits	$ 1,761,396
Net assets available for benefit	$ 1,063,021

Prior service costs -

Prior service costs are being amortized over 20 years at a discount rate of 4.75%.

Receipts and disbursements -

Program net assets, beginning of year		$ 870,113
Changes during the year:		
Plan contributions	$ 244,612	
Investment income earned	31,821	
Plan benefit withdrawals	(83,525)	192,908
Program net assets, end of year		$ 1,063,021

Contributions -

Amount of sponsor's contribution recommended by actuary	$ 255,064
Amount of sponsor's actual contribution	$ 244,612

Funding methodology and actuarial assumptions:

Normal costs -

The actuarial valuation methodology used by the actuary to determine the Sponsor’s contribution is entry age normal frozen initial liability. The assumptions used by the actuary to determine the Sponsor’s contribution and the actuarial present value of benefits are:

Assumed rate of return on investment	4.75%
Mortality Tables used for:	
Pre-retirement	1984 Unisex Pensioners
Post-retirement	1984 Unisex Pensioners
Death (Actives)	None

(11) Post-employment benefits

Plan description and annual Other Post-Employment Benefits (“OPEB”) cost

The Village provides post-employment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the Village’s contractual agreements.

The Village has implemented GASB Statement 45. This required the Village to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Currently, 9 retired employees receive health benefits from the Village. Retirees contribute 0% for coverage.

The Village recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund financial statements as payments are made. For the year ended May 31, 2015, the Village recognized $90,816 for its share of insurance premiums and Medicare Part B reimbursements for currently enrolled retirees.

The Village has obtained an actuarial valuation report as of June 1, 2014 which indicates that the total liability for other post-employment benefits is $5,224,635.

The Village's annual (OPEB) cost (expense) for its plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Village's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Village's net OPEB obligation:

	For the Year Ended May 31, 2015
Annual required contribution	$ 488,308
Contributions made	(90,816)
Increase in net OPEB obligation	397,492
Net OPEB obligation - beginning of year	2,345,909
Net OPEB obligation - end of year	$ 2,743,401

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
5/31/2015	$ 488,308	18.60%	$ 2,743,401
5/31/2014	465,768	20.47%	2,345,909
5/31/2013	463,158	21.28%	1,975,461

Funded status and funding progress

As of June 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $5,224,635 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $5,224,635. The covered payroll (annual payroll of active employees covered by the plan) was $1,274,344, and the ratio of the UAAL to the covered payroll was 409.99%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 1, 2014 actuarial valuation, the projected unit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.25% initially, reduced by decrements to an ultimate rate of 4.75% after 6 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at May 31, 2015 was 24 years.

(12) Commitments and contingencies

A. Government grants

The Village receives 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 to the State and Federal governments. Based on past experience, the Village administration believes disallowances, if any, would be immaterial.

B. Litigation

On an ongoing basis, the Village is a party to litigation including tax certiorari proceedings. Such proceedings will occasionally result in settlements, whereby the Village will be required to rebate certain real property taxes. Such rebates are recognized when realized. Based on past experience, the Village administration believes the ultimate resolution of current legal actions, if any, would be immaterial.

C. Property tax cap

In June 2011, the New York State Legislature enacted Chapter 97, Laws of 2011 Real Property Tax Cap and Mandate Relief Provisions. For fiscal years beginning in 2012 through at least June 15, 2016, growth in the property tax levy (the total amount to be raised through property taxes charged on a municipality's taxable assessed value of property) will be capped at 2% or the rate of inflation (but not less than 1 percent), whichever is less, with some exceptions. The governing body can exceed the tax levy limit by a passing 60% vote, which is enforced by local law.

(13) New accounting standards not yet implemented

GASB has issued Statement 68, Accounting and financial Reporting for Pensions - an amendment of GASB Statement No. 27, which is to improve accounting and financial reporting by State and local governments for pensions. The Village is currently studying this statement and plans on adoption when required, which will be for the 2016 financial statements.

(14) Subsequent events

The Village has evaluated subsequent events occurring after the Statement of Net Position through the date of August 25, 2015 which is the date these financial statements were available to be issued noting no matters requiring disclosure.

NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees of
the Incorporated Village of Bayville:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Incorporated Village of Bayville (the "Village"), as of and for the year ended May 31, 2015, and the related notes to financial statements, which collectively comprise the Village's financial statements and have issued our report thereon dated August 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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 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.

NawrockiSmith

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village'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 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

This report is intended 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.

Melville, New York
August 25, 2015

Nawrocki Smith LLP