

NOTES TO FINANCIAL STATEMENTS
FOR THE TOWN OF ORWELL
COUNTY OF OSWEGO
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Orwell is governed by general municipal law and other general laws of the State of New York and various local laws. An elected Town Board is responsible for overall operations, the elected Town Supervisor serves as chief executive officer and chief fiscal officer. The scope of activities and services within the accompanying financial statements include the assessment and collection of real property taxes, the issuance of certain permits and licenses, the enforcement and establishment of Town Laws, the support and conduct of town justice court and town highway maintenance, improvements and construction.

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

The financial reporting entity includes organizations, functions and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters.

The accounts of the town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate sheet of self-balancing accounts that comprise its assets, liabilities and equity arising from cash transactions, and its revenues collected and expenditures paid.

The various funds are summarized by type in the financial statements.

Government funds are those through which most governmental functions of the town are financed.

The following governmental funds are maintained:

General Fund - which is used to account for operations not required by statutory or regulatory provisions to be accounted for in another fund.

Special Revenue Funds - which are utilized to account for revenues required by law or rule to be accounted for in a separate fund. Special revenue funds employed by the town include the highway and operating funds for various special districts within the town (see Note 2).

Capital Projects Funds - which are used to account for financial resources to be used for the acquisition or construction of capital facilities and for other capital outlays.

Trust and Agency (Fiduciary Funds) - are used for the purpose of accounting for money and property received and held by the town in the capacity of trustee, custodian or agent.

General Long-Term Debt Account Group - is used to establish accounting control and accountability for the town's general long-term obligations.

The town utilizes the modified accrual basis of accounting. Under this basis, utilizing the several funds necessary to differentiate equity or purpose, revenues are generally recognized when they are measurable and available to finance expenditures of the current year and expenditures will be recorded when incurred.

Note 2 **Special Districts**

Included within the boundaries of the town are special improvement districts and fire protection district. Each of these districts is a creation of the town, administered by the town board, and the full faith and credit of the town is pledged to secure district indebtedness. However, each district constitutes a separate and distinct political subdivision and, to the extent other revenues are insufficient to meet operating costs, is to be supported solely by real property taxes or assessments levied against property within the district.

Special district constructions projects and other expenditures financed through the issuance of capital indebtedness are accounted for in the capital projects fund; district operations are accounted for in funds categorized as special revenue funds.

Note 3 **Fund Equities**

In fiscal 2011, the Town of Orwell implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). GASB 54 changed the classification of fund balance to focus on the constraints imposed on resources in governmental funds, instead of the previous focus on availability for appropriation.

Fund balance is now broken down into five different classifications:

Non-spendable, restricted, committed, assigned, and unassigned.

Non-spendable consists of assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed consists of amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The Town Board is the decision-making authority that can, by resolution prior to the end of the fiscal year, commit fund balance.

Assigned consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. The Town Board, by resolution has authorized the Town Supervisor to assign fund balance.

Unassigned represents the residual classification for the government’s general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When resources are available from multiple classifications, the Town of Orwell spends funds in the following order: restricted, committed, assigned, unassigned.

The following is a list of all funds, special improvement districts and fire protection district and their respective equities at December 31, 2017:

	<u>EQUITY</u>	
<u>FUND</u>	<u>ASSIGNED APPROPRIATED</u>	<u>ASSIGNED/UNASSIGNED UNAPPROPRIATED</u>
General Fund	\$25,000	\$229,333
Highway Fund	\$28,500	\$339,355
Library Fund	\$0	\$33,820
Water Districts	\$0	\$46,572
Fire District	\$0	\$0

Note 5 **Real Property Taxes**

Real property taxes for town and special districts are levied annually by the County Legislature, based upon budgetary requirements, and become due as of January 1. The collection of taxes is effectively guaranteed by the County, and the town receives the total amount levied in the year to which the levy applies.

Note 6 **Employee Benefits**

Pension Plans

Plan Description

The Town of Orwell participates in the New York State and Local Employees' Retirement System (ERS) which is collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer defined benefit retirement systems. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Town of Orwell also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report may be found at ww.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20 percent of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tiers 3, 4, and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 ERS and PFRS members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Contributions

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3 percent 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 percent of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>
<u>2017</u>	\$51,486
<u>2016</u>	\$48,131
<u>2015</u>	\$61,237

Local governments were given the option to prepay the liability for New York State Retirement due February 1st of each year. The Town of Orwell elected to make the full payment of the February 1, 2018 liability on December 15, 2017.

The town funds pension costs in the budget for, and accounts for these costs as expenditures of, the town fiscal year in which these costs are payable rather than as they accrue.

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

At December 31, 2017, the Town of Orwell reported a liability of \$127,699 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2017, the Town's proportion was 0.0013590 percent.

At December 31, 2017 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resource</u>	Deferred Inflows of <u>Resource</u>
Differences between expected and actual experience	\$3,200	\$19,392
Changes of Assumptions	\$43,627	\$0
Net difference between projected and actual earnings on pension plan investments	\$25,507	\$0
Changes in proportion and differences between LG contributions and proportionate share of contributions	\$869	\$25,749
LG contributions subsequent to the measurement date	<u>\$0</u>	<u>\$0</u>
Total	<u>\$73,203</u>	<u>\$45,141</u>

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

Year Ended <u>March 31,</u>	
2017	\$16,158
2018	\$16,158
2019	\$16,413
2020	(\$20,667)
2021	\$0

Unemployment Insurance

Town employees are entitled to coverage under the Unemployment Insurance Law. The town has elected to discharge its liability to the New York State Unemployment Insurance Fund by the benefit reimbursement method, a dollar-for-dollar reimbursement to the unemployment insurance fund, for benefits paid to former town employees and charged to the town's account. Benefit reimbursements will be paid from current appropriations.

Note 7 **Long-Term Debt**

The following installment purchase contract was outstanding at December 31, 2017:

<u>PURPOSE</u>	<u>DATE ISSUED</u>	<u>INTEREST RATE</u>	<u>PAID DURING 2017</u>	<u>OUTSTANDING 12/31/17</u>	<u>FINAL MATURITY</u>
Highway Equip	8/2013	2.84%	\$39,358	\$0	8/2017