

TOWN OF HOPEWELL
Notes to Annual Update Document

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town of Hopewell, which was established in 1822, is governed by the Town Law and other general laws of the State of New York and various local laws. The governing body is the Town Board. The Supervisor serves as Chief Executive Officer. The Town provides the following basic services: general government support, public safety and health, transportation, economic assistance and opportunity, culture and recreation, water districts, fire protection districts, and home and community service.

B. Financial Reporting Entity

The scope of activities included within the Annual Update Document are those transactions which comprise Town operations, and are governed by, or significantly influenced by, the Town Board. The financial reporting entity includes all funds, account groups, functions and organizations over which the Town Board exercises 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. Included in the reporting entity are the activities of the Town Clerk, Court Clerk, and the Receiver of Taxes.

C. Basis of Presentation

Management has elected to prepare its financial statements on the regulatory basis of accounting required by the New York State Office of the State Comptroller for Annual Reports to that office. The required financial statement is titled the Annual Update Document (AUD). A brief summary of some of the differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America (GAAP) is as follows:

- For financial statements prepared in accordance with U.S. GAAP, general-purpose financial statements are replaced with the basic financial statements, and include two statements, the statement of net position and the statement of activities, collectively referred to as the "government-wide" financial statements which are presented on the full accrual basis of accounting. Under the accrual basis, revenues and expenses are recognized when incurred regardless of when the actual cash receipt or disbursement occurred. These statements, and use of the accrual basis, are not required under the regulatory basis referred to above.
- A Management's Discussion and Analysis (MD&A) is required as supplemental information that precedes the basic financial statements and is intended to provide an objective analysis of the government's financial activities, both on a current and long-term basis, based on current conditions.
- Fund-based financial statements must be reconciled to the "government-wide" statements.
- Capital assets, including infrastructure, other than land are required to be depreciated and reported in the "government-wide" statement of net position at their net book value, and depreciation expense are generally allocated to the major functions on the statement of activities based on the use of the underlying assets.
- The liability for postemployment benefits obligations has not been recorded by the Town as required by GAAP.

In preparing the financial statements included in the accompanying AUD in accordance with accounting principles prescribed by the New York State Office of the State Comptroller,

TOWN OF HOPEWELL
Notes to Annual Update Document

management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

The accounts of the Town are organized on the basis of funds or account groups. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are summarized by type in the AUD. The following fund types and accounts groups are used:

1. Governmental Fund Types

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 determination of financial position and changes in financial position. The following are the Town's governmental fund types:

General Fund - The general fund is the general operating fund of the Town. The fund is used to account for all financial resources except for those required to be accounted for in a separate fund. This includes a general part-town fund, which is used to record transactions required by statute to be charged to the area of the Town outside of the Village.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

Highway Funds - The highway funds are used to account for all transactions of the Department of Public Works except for Public Works administration, which is included in the general fund. This fund also includes a highway part-town fund, which is used to record transactions required by the statute to be charged to the area of the Town outside the Village.

Special District Funds - The special district funds are used to account for the transactions of districts that do not encompass the tax base of the entire Town. Such funds could include lighting, fire protection, sewer and water districts.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisitions, construction or renovation of major capital facilities.

2. Fiduciary Funds (Trust and Agency Funds)

Fiduciary funds are used to account for fiduciary activities. Fiduciary activities are those in which the Town acts as trustee or agent for resources that belong to others.

Agency Funds - The agency funds are used to account for money received and held in the capacity of trustee, custodian, or agent. The Town reports agency funds for the Town Clerk, Court Clerk and Receiver of Taxes.

Expendable Trust Funds - The expendable trust funds are used to account for financial activity in essentially the same manner as governmental funds. Expendable trust funds are maintained for a historical trust. Agency funds are custodial in nature and do not involve measurement of results of operations.

TOWN OF HOPEWELL
Notes to Annual Update Document

3. Account Groups

Account groups are established to account for the assets and liabilities that are not included in the governmental funds because of their measurement focus.

The General Fixed Assets Account Group - The general fixed assets account group is used to account for land, buildings, and equipment utilized for general government purposes. Also included in this account group are deferred outflows of resources related to the Town's participation in the New York State Employees' Retirement System.

The General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all long-term debt and other long-term obligations of the Town. Long-term indebtedness includes obligations such as serial bonds. Other obligations include estimated retirement liabilities and any vested or accumulated compensated absences which are payable out of future budgets.

D. Measurement Focus and Basis of Accounting

1. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All governmental and fiduciary funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financial uses) in fund balance.

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are recorded in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This measurement focus and basis of accounting is similar to private sector reporting. Fixed assets and long-term liabilities related to these activities are recorded within the fund. The Town has no proprietary funds.

2. Modified Accrual Basis

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A 60-day availability period is used for property tax revenue recognition, and a 90-day availability period is used for all non-property tax revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are real property taxes, state and federal aid, sales tax, and certain user charges. Fines and permits are not susceptible to accrual because generally they are not measurable until received. When expenditures are the prime factor for determining eligibility, revenues from federal and state governments are accrued when the expenditure is made.

TOWN OF HOPEWELL
Notes to Annual Update Document

Expenditures are recorded when the fund liability is incurred except that:

- Expenditures for prepaid expenses and inventory-type items are recognized when paid.
- Principal and interest on indebtedness are not recognized as an expenditure until due.
- Unfunded compensated absences are recognized as a liability for vacation leave and additional salary-related payments as the benefits are earned by the employees, based on the rendering of past service and the probability that the employees will be compensated for the benefits through paid time off or some other means. This includes vacation leave that was earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Amounts do not include leave expected to lapse but include leave that employees will eventually qualify for.
- In addition, a liability is recognized for vesting sick leave and additional salary-related payments for employees who, at the balance sheet date, currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such benefits.
- Pension costs are recognized as expenditures in the general fund as the wages upon which they are based are earned.
- General long-term debt liabilities are recorded at the par value of the principal amount, and no liability is recorded for interest payable to maturity.

3. Use of Estimates

The AUD has been prepared on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and, as such, includes amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from these estimates.

4. Budgetary Data

The budget of the Town is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget utilizes the modified accrual method of accounting and includes:

- The programs, projects, services and activities to be carried on during the fiscal year. The estimated revenue available to finance the operating plan. The estimated spending requirements of the operating plan
- The Town follows these procedures in establishing the budgetary data reflected in the financial statements. Public hearings are conducted by the Town Board to obtain public comment on the preliminary budget.
- Budgetary controls are established for the capital projects fund through resolutions authorizing individual projects. These resolutions remain in effect for the life of the project.
- Budget modifications are authorized by resolution of the Town Board. Unencumbered budgetary appropriations lapse at the close of each fiscal year with the exception of capital projects as mentioned above.

5. Cash

For purposes of reporting, the Town includes all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less from the date of purchase as cash.

TOWN OF HOPEWELL
Notes to Annual Update Document

6. 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 appropriation, is not employed. Encumbrances are reported as restrictions, commitments, or assignments of 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.

7. Accounts Receivable

Accounts receivable balances at year end reflect no reserve for bad debts as the Town feels they are fully collectible.

8. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the non-current governmental assets group of accounts. The Town does not record infrastructure (roads and bridges) as capital assets. The Town defines capital assets as assets with an initial, individual cost of more than \$1,000 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.

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 are not capitalized.

The cost associated with the acquisition or construction of capital assets are shown as capital outlay expenditures in governmental funds. Capital assets are not shown on governmental fund balance sheets.

9. Compensated Absences

The Town accounts for this obligation as earned in the general long-term obligations account group. Town employees may accumulate sick leave, subject to certain limitations, and carry it forward to subsequent years. In the event of retirement, an employee is entitled to apply accumulated sick leave against future health insurance premiums.

TOWN OF HOPEWELL
Notes to Annual Update Document

10. Fund Balance - Reservations and Designations

1. Fund Financial Statements

The Town complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness and clarity of fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable Fund Balance** - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.
- **Restricted Fund Balance** - amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.
- **Committed Fund Balance** - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the Town, the highest level of decision-making authority resides with the Town Board.
- **Assigned Fund Balance** - amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Town Board delegates the authority.
- **Unassigned Fund Balance** - amounts that are available for any purpose.

For the classification of governmental fund balances, the Town considers an expenditure to be made from budgetary appropriation first when more than one classification is available. The Town established and modifies fund balance commitments by a passage of a resolution in meetings of the Town Board. Assigned fund balance is established by the Town through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service or for other purposes). The Town Supervisor is responsible for all the purchasing activities of the Town and encumbrances at year end, which are considered assigned funds and therefore, the Town Supervisor is designated as having the authority to assign amounts intended to be used for specific purposes. The Town Board approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

11. Accounting and Financial Reporting for Pensions

The Town complies with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Town to report as a liability its portion of the collective pension liability in the New York State and Local Employees' Retirement System and the Police and Fire Retirement System. Deferred Outflows and Inflows of Resources.

TOWN OF HOPEWELL
Notes to Annual Update Document

12. Interfund Transfers

Interfund transfers are generally recorded as operating transfers in (out) except for the following types of transactions:

- Interfund revenues which are recorded as revenues of the performing fund and expenditures of the requesting fund.
- Reimbursements for services performed, which are recorded as a reduction of expenditures in the performing fund and an expenditure of the requesting fund.

E. Property Taxes

Town real property taxes are levied annually no later than December 31 and become a lien on January 1. Taxes are collected during the period January 1 to March 31 by town collectors. The Town receives the full amount of their levy annually out of the first amounts collected on the combined bills. Monroe County assumes enforcement responsibility for all taxes levied by the Town.

Note 2. Deposits and Investments

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Town is authorized to invest in certificates of deposit, time deposit accounts, obligations of New York State and the U.S. Government and repurchase agreements.

Collateral is required for time deposits and certificates of deposit not covered by federal deposit insurance. The written investment policy requires repurchase agreements to be purchased from banks located within New York State and that underlying securities must be obligations of the Federal government. Underlying securities must have a market value of at least 102 percent.

Collateral coverage is reported in the Annual Update Document.

Note 3. Interfund Receivables and Payable

Interfund receivables and Payables must be in balance at all times. A Schedule summarizing the Interfund Receivables and Payables at year end is included in this report.

Note 4. Capital Assets

Capital assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost in the general fixed assets account group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets, consisting of certain infrastructure improvements other than buildings, including roads, bridges, drainage and lighting systems have not been capitalized. Such assets normally are immovable and of value only to the Town. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

No depreciation has been provided on general fixed assets.

A summary of changes in the general fixed asset account group is included in a Schedule to this report.

Note 4. Bond Anticipation Notes, Bonds, Capital Lease Obligations and Other Long-term Debt

The Town records the principal balance of its Bond Anticipation Notes, Bonds, Capital Lease Obligations and Other Long-term Debt as incurred. Interest expense on these obligations is recorded as paid. A summary of the long-term debt is included in the Statement of Indebtedness in the Annual Update

Document . Information on the Schedule of Indebtedness and a Schedule of Future Principal and Interest Obligations is attached to this report.

Note 5. Inter-fund Transfers

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move residual cash from closed projects to debt service to be used for debt payments at a later date. A Schedule of Transfers is attached to this report.

Note 6. Retirement Plan

Plan Description

The Town participates in the New York State and Local Employees' Retirement System (ERS) which is referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer defined benefit retirement system. 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. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November 2014, he was elected for a new term commencing January 1, 2015. 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 Gates 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 www.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.

Funding Policy

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.

TOWN OF HOPEWELL
Notes to Annual Update Document

Employee's Retirement System (ERS)

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

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. 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 System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in reports provided to the Town. At December 31, 2019, the Town reported the following liability for its proportionate share of the net pension liability for the System, which was measured as of March 31, 2019:

Actuarial valuation date	4/1/202B
Net pension liability	\$225,668
Agency's portion of the Plan's total net pension liability	0.0027606%

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	3/31/2019
Actuarial valuation date	4/1/201B
Interest rate	7.0%
Salary scale	3.8% average
Inflation	2.5%
Decrement table	April 1, 2010 - March 31, 2015 System's Experience

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each *major* asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return:</u>
Domestic equity	36.0%	4.55%
International Equity	14.0%	6.35%
Private equity	10.0%	7.75%
Real estate	10.0%	5.50%
Absolute return strategies	2.0%	4.00%
Opportunistic portfolio	3.0%	5.89%
Real assets	3.0%	5.54%
Bonds and mortgages	17.0%	1.31%
Cash	1.0	(0.25)%
Inflation-indexed bonds	4.0%	1.50%
	100%	

TOWN OF HOPEWELL
Notes to Annual Update Document

* The real rate of return is net of the long-term inflation assumption of 2.5%
Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for the plan year ended March 31, 2019. 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 System'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 changes in the discount rate assumption

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.0% per annum (the "current rate"), as well as what the Town's proportionate share of the net position liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1% point higher (8.0%) than the current rate:

	1% Decrease <u>(4.90%)</u>	Current Assumption <u>(5.90%)</u>	1% Increase <u>(6.90%)</u>
Towns' proportionate share of the ERS Net Pension Liability	\$ 580,868 -	\$(225,668)	<u>\$ (900,297)</u>

Pension Plan Fiduciary Net Position

The components (in thousands) of the current year net pension liability of the employers as of valuation date was as follows:

	In Millions 3/31/2019
Valuation date	3/31/2019
Employers' total pension liability	\$ (189,803)
Plan net position	<u>182,718</u>
Employers' net pension liability	<u>\$ (7,085)</u>
Ratio of plan net position to the employers' total pension liability	<u>96.27%</u>

Note 8. Other Postemployment Benefits (OPEB)

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Town's full-time employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits and survivor benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the year ended December 31, 2019 this amounted to \$125,760 .

The Town has not engaged an actuary to perform the valuation necessary to recognize the net OPEB liability at December 31, 2019. As a result, no provision for this liability has been made in the non- current governmental liabilities group of accounts.

TOWN OF HOPEWELL
Notes to Annual Update Document

Note 9. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are handled by the Town through the purchase of various insurance policies with varying coverage limits, deductibles, and premiums based on the type of policy. No significant reductions in insurance coverage in prior years occurred, and no claims exceeded the Town's coverage for each of the past three Year

Note 10. Contingent Liabilities

The Town is a defendant in various lawsuits and claims. These lawsuits and claims are being handled by the Town's insurance carriers and/or the attorneys for the Town, and the outcome of the lawsuits and amount of damages, if any, are not presently determinable.

Note 11. Subsequent Events

The Town has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 virus on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the Town and its future results and financial position is not presently determinable.