

# OUTLINE

## **NOTES TO FINANCIAL STATEMENTS**

### **I. Summary of Significant Accounting Policies**

- A. Financial Reporting Entity
- B. Fund Accounting
  - 1. Fund Categories
  - 2. Account Groups
- C. Basis of Accounting/Measurement Focus
- D. Property Taxes
- E. Budgetary Data
  - 1. Budget Policies
  - 2. Encumbrances
  - 3. Budget Basis of Accounting
- F. Property, Plant and Equipment – General
- G. Insurance
- H. Vacation, Sick Leave and Compensatory Time
- I. Post Employment Benefits
- J. Landfill Closure and Post-Closure Care Costs

## **II. Detail Notes on All Funds and Account Groups**

- A. Assets
  - 1. Cash and Investments
  - 2. Changes in Capital Assets
- B. Liabilities
  - 1. Pension Plans
  - 2. Long-Term Debt
- C. Interfund Receivables and Payables
- D. Fund Equity
  - 1. Allocation of Fund Balance
  - 2. Reserves

## **III. Contingencies**

- A. Unused Letters-of-Credit
- B. Pending Litigation

<b>NOTES TO THE FINANCIAL STATEMENTS</b>
--

**DECEMBER 31, 2012**

**I.- Summary of Significant Accounting Policies**

The financial statements of the Town of Halfmoon have been prepared in conformity with generally accepted accounting principles (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 government's accounting policies are described below.

**A. Financial Reporting Entity**

The Town of Halfmoon is governed by Town Law and other general laws of the State of New York and various local laws. The governing body of the Town is the Town Board, which consists of the Supervisor and four Board members. The Supervisor is responsible for overall operations and serves as Chief Executive Officer and Chief Fiscal Officer.

The Town provides its residents with general government support, street maintenance, water supply and distribution, sanitary sewers, lighting, recreational facilities, and various other services.

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

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criterion set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to influence operations significantly, and accountability for fiscal matters. A second criterion used in evaluating potential component

units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its citizens. A third criterion used in evaluating potential component units is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Based upon the application of these criteria, no component units have been included within the reporting entity.

## **B. Fund Accounting**

The Town uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Town records its transactions in the fund types and account groups described below.

### **1. Fund Categories**

- a. **Governmental Funds** – 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 principal operating fund and includes all operations not required to be recorded in other funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the Town include the following:

Special District Funds are used to account for taxes or other revenues which are raised or received to provide special services to areas that encompass less than the whole town.

Highway Fund is used to account for revenues and expenditures for highway purposes in accordance with Section 141 of the Highway Law.

Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. Financing is generally provided from proceeds of bonds, notes, and/or federal and state grants.

Additionally, the government reports the following fund types:

a. Miscellaneous Special Revenue Funds are used to account for assets held on behalf of other funds within the Town.

b. Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund, or an expendable trust fund is used. The terms “nonexpendable” and “expendable” refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

## **2. Account Groups**

Account groups are used to establish accounting control and accountability for general capital assets and general long-term debt. The two account groups are not “funds”. They are concerned with measurement of financial position and not results of operations.

The General Capital Assets Account Group – used to account for land, buildings, improvements other than buildings, and equipment utilized for general government purposes, except those accounted for in proprietary funds.

The General Long-Term Debt Account Group – used to account for all long-term debt except that accounted for in proprietary funds.

**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** – All Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting.

Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days.

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 federal and state grants are accrued when the expenditure is made and the resources are available.

Expenditures are recorded when incurred except that:

- a. Expenditures for prepaid expenses and inventory-type items are recognized at the time of purchase.
- b. Principal and interest on indebtedness are not recognized as an expenditure until due.
- c. Compensated absences, such as vacation and sick leave which vests or accumulates, are charged as an expenditure when paid.

**Accrual Basis** – Proprietary funds are accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred. Fixed assets and long-term liabilities related to these activities are recorded within the funds.

**Account Groups** – General fixed assets are recorded at actual or estimated cost or, in the case of gifts and contributions, at the fair market value at the time received. No provision for depreciation is made. General long-term debt liabilities are recorded at the par value of the principal amount. No liability is recorded for interest payable to maturity.

**D. Property Taxes**

Real property taxes are levied annually no later than January 1 and become a lien on that date. Taxes for county purposes are levied together with taxes for Town and special district purposes as a single bill. The town and special districts receive the full amount of their levies annually out of the first amounts collected on the combined bills. The County assumes enforcement responsibility for all taxes levied in the town.

**E. Budgetary Data**

1. **Budget Policies** – The budget policies are as follows:

No later than September 30, the Supervisor submits a tentative budget to the Town Clerk for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all operating funds of the Town.

After a public hearing is conducted to obtain taxpayer comments, no later than November 20, the Town Board adopts the budget.

All modifications of the budget must be approved by the Town Board; however, the Supervisor is authorized to transfer certain budgeted amounts within departments.

Budgetary appropriations are established for individual capital projects through resolutions authorizing the corresponding Capital Fund to be established which remain in effect for the life of the project.

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.

2. **Encumbrances**

Encumbrance accounting, under which 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 type funds. Encumbrances are reported as reservations 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.

**3. Budget Basis of Accounting**

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all Capital Projects Funds.

**F. Property, Plant and Equipment – General**

Capital assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost or estimated historical costs in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

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

No depreciation has been provided on general capital assets, nor has interest on general capital assets construction in progress been capitalized.

**G. Insurance**

The Town of Halfmoon assumes the liability for most risk including, but not limited to, property damage and personal injury liability. 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.

**H. Vacation, Sick Leave and Compensatory Time**

The Town of Halfmoon employees are granted vacation, sick leave and may earn compensatory time only with prior approval of Department Manager. In the event of resignation, retirement or death, an employee is entitled to payment for accumulated vacation and compensatory time only and all accumulated sick time is null and void. However, at the time of retirement from service to the Town any sick leave balances, to a maximum of 165 days shall be reported to the



NYS and Local Employees Retirement System for service credit. In the event of termination, an employee is entitled to payment for compensatory time only.

**I. Post Employment Benefits**

In addition to providing pension benefits, the Town provides health & dental insurance coverage for eligible retired employees and spouse as limited by COBRA. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care 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 expenditure in the year paid. During the year 2012, \$651,741 was paid on behalf of 20 retirees or their spouses and 52 active employees and was recorded as expenditure in the General, Highway and Water Funds. The cost of providing benefits for the retirees is not separable from the cost of providing benefits for the active employees.

**J.. Landfill Closure and Post-Closure Care Costs**

The Town landfill was permanently closed as mandated by NYSDEC on December 31, 1992. The Town landfill closure capital project is in the final phase process. The Town has estimated post-closure care costs for certain required maintenance and monitoring functions, as well as cost of services to assure closure standards are upheld. In 2004 this estimate was reduced to \$187,700 for the remainder 20 year period. The Town currently has set aside \$141,443 of its current cash assets in a Capital Reserve Fund. The reserve monies together with annual anticipated interest, is expected to fund the projected annual expenditures over the remainder of the 20-year-post-closure period.

## **II. Detail Notes on All Funds and Account Groups**

### **A. Assets**

#### **1. Cash and Investments**

The Town 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 Supervisor 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 school districts.

Deposits and investments at year-end were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name. Monthly confirmation letters are on file in the Finance Office.

Description	All Town Accounts Bank Balances 12/31/12	FDIC 250,000 Each Bank	Secured by Collateral at Par Value
Demand Deposits	\$11,415,374	\$750,000	\$11,382,733
TOTAL	\$11,415,374	\$750,000	\$11,382,733

## 2. Changes in Capital Assets

A summary of changes in capital assets is as follows:

Type	Balance, January 1, 2012	Additions	Deletions/ Transfers	Adjust- ments	Balance, December 31, 2012
Land	\$ 2,653,997				\$ 2,653,997
Buildings	35,336,917	13,259,736		(10,215,670)	38,380,983
Improvements	896,390				896,390
Machinery & equipment	5,054,883	252,533	(112,302)	25,815	5,220,929
	<u>\$43,942,187</u>	<u>13,512,269</u>	<u>(112,302)</u>	<u>(10,189,855)</u>	<u>\$47,152,299</u>

## B. Liabilities

### 1. Pension Plans

#### Plan Description

The Town participates in the New York State and Local Employees' Retirement System. This is a cost-sharing, multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (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 transaction of the business of the System and for the custody and control of its funds. The System 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, New York 12244.

#### Funding Policy

The System is noncontributory, except for employees who joined the New York State and Local Employees' Retirement System after July 17, 1976, who contribute 3% of their salary for the first ten years of membership. On December 12, 2009 a new Tier 5 was signed into law. The law became effective for new members beginning January 1, 2010. This tier will require employees to contribute 3% of their salary so long as they accumulate additional pension credits. On March 16, 2012 a new Tier 6 was signed into law. This tier became effective for new members beginning April 1, 2012 and will require employees to contribute between 3% and 6 % based on their salary. Under the

authority of the NYSRSSL, the Comptroller annually certifies the rates expressly used in computing the employers' contributions.

The required contributions for the three preceding years were prepaid in December of the previous year prior to the February due date:

<u>Year Paid</u>	<u>Invoice Year</u>	<u>ERS</u>
2011	2012	\$472,124
2010	2011	\$391,061
2009	2010	\$251,475

Contributions made to the Systems were equal to 100% of the contributions required for each year.

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability.

## 2. Long-Term Debt

- a. At December 31, 2012 the total outstanding indebtedness of the Town aggregated \$40,256,232.
- b. Serial Bonds - The Town borrows money in order to acquire land and 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 assets. These long-term liabilities, which are full faith and credit debt of the Town, are recorded in the General Long-Term Debt Account Group. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.
- c. Other Long-Term Debt – In addition to the above long-term debt the Town had the following non-current liabilities:

Landfill Post-Closure Costs – represent the estimated costs to be incurred for certain required maintenance and monitoring functions, as well as cost of services to assure

closure standards are upheld related to the Town's landfill closure.

- d. Summary Long-Term Debt – The following is a summary of long-term liabilities by fund and account group:

	Landfill Post-Closure <u>Costs</u>	Bonds <u>Payable</u>	<u>Total</u>
Balance, beginning of year	\$154,859	\$42,377,641	\$42,532,500
Additions	384	2,210,000	2,210,384
Reductions	<u>(13,800)</u>	<u>(4,331,409)</u>	<u>(4,345,209)</u>
Balance, end of year	<u>\$141,443</u>	<u>\$40,256,232</u>	<u>\$42,397,675</u>

- e. Long-Term Debt Maturity Schedule – The following is a statement of serial bonds with corresponding maturity schedules.

	<u>Original Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Date Final Maturity</u>	<u>2012 Outstanding</u>
<u>Water</u>					
Water District Imp.	5/84	\$3,000,000	5.000%	5/2021	\$810,000
Public Improvement	9/93	685,000	5.100%	9/2013	45,000
Water District	1/96	532,300	5.000%	6/2033	294,164
General Obligation	3/01	1,644,000	0.000%	3/2022	827,302
Water District	4/04	3,820,000	2.000%	12/2019	1,550,000
Public Improvement	9/06	16,200,000	4.250%	9/2031	13,730,000
Public Improvement	9/08	15,761,850	4.125%	6/2028	13,700,000
Water District	8/09	4,430,000	3.000%	4/2021	3,785,000
Water District	8/12	2,210,000	2.000%	4/2022	2,195,000
<u>Sewer</u>					
EFC Sewage Treatment Facility	9/97	705,087	1.00%	9/2016	<u>164,766</u>
<u>Library</u>					
Library Bond	8/05	3,870,000	4.200%	8/2030	<u>3,155,000</u>
					<u>\$40,256,232</u>

- f. The following table summarizes the Town's future debt service requirements:

<u>Year Ending 12/31</u>	<u>Serial Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	2,293,881	1,620,361
2014-2017	9,642,206	5,568,137
2018-2021	10,330,207	3,977,051
2022-2025	7,856,032	2,498,112
2026-2029	7,806,032	1,121,976
2030-2033	2,326,028	152,784
Totals	40,254,386	14,398,421

- g. Advance Refunding of Bonds - On August 25, 2009, the Town issued \$4,430,000 in Serial Bonds with an average interest rate of 4.5 percent to advance refund \$4,615,000 of outstanding 2001 Series bonds with an average interest rate of 4.75 percent. The net proceeds of \$4,876,987 (after payment of \$69,580 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Series bonds. As a result, the 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.
- h. Advance Refunding of Bonds - On August 30, 2012, the Town issued \$2,210,000 in Water District Refunding Serial Bonds with an average interest rate of 2.00 percent to current refund \$2,140,000 of outstanding Water District (Serial) Bonds, 2002 with an average interest rate of 4.87 percent. The net proceeds of \$2,201,419.06 (after payment of \$62,500 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series bonds. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group. There was an extra amount of \$1,024.99 generated from the refunding that has been used for debt service on the new bonds.

**C. Interfund Receivables and Payables**

Interfund receivables and payables were as follows:

	<u>Receivables</u>	<u>Payables</u>
General		\$67,243
Water		\$403,901
Capital	\$471,144	

**D. Fund Equity**

1. Allocation of Fund Balance

Certain funds of the Town apply to areas less than the entire Town. The fund equity at balance sheet date is allocated as follows:

General Fund	\$3,985,448
Special Revenue Funds	3,387,067
Highway Fund	(197,576)
Capital Projects	970,050
Lighting	7,080
Sewer	2,334
Water	<u>3,758,565</u>
TOTAL	\$11,912,968

2. Reserves

The operating fund equity includes capital reserve funds established for the following purpose:

FUND	BALANCE END OF YEAR
General	\$3,914,530
Highway	337,097
Landfill Postclosure	141,443
Water	<u>1,428,621</u>
TOTAL	\$5,821,691

### **III. Contingencies**

#### **A. Unused Letters-of-Credit**

The Town has \$4,357,925 of unused letters-of-credit, which expire between January 2013 through December 2015, from various contractors and developers with ongoing projects within the Town. If they are unable to complete the infrastructure or landscaping on the project, the Town may use the letters-of-credit to fund completion of the project.

#### **B. Pending Litigation**

The Town is involved in certain suits and claims arising from a variety of sources. It is the opinion of counsel and management that the liabilities that may arise from such actions would be covered by the Town's insurance carrier or would not result in losses that would materially affect the financial position of the Town or the results of its operations.