

Village of Fairport, New York

Financial Report

May 31, 2017

Village of Fairport, New York

Financial Report

May 31, 2017

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Independent Auditor's Report

Mayor and Board of Trustees
Village of Fairport, New York
Fairport, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fairport, New York (Village) as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of May 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of funding progress - other postemployment benefits, schedule of proportionate share of net pension liability, and schedule of pension contributions on pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018, 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.

BST & CO. CPAs, LLP

Albany, New York
January 26, 2018



Village of Fairport, New York

Statement of Net Position

| | May 31, 2017 | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| CURRENT ASSETS | | | |
| Cash and equivalents | \$ 1,904,641 | \$ 3,802,967 | \$ 5,707,608 |
| Cash and cash equivalents, restricted | 2,021,598 | 1,207,550 | 3,229,148 |
| Receivables, net of uncollectibles | 39,554 | 468,109 | 507,663 |
| Inventories | - | 906,549 | 906,549 |
| Prepaid expenses | 172,527 | 520,617 | 693,144 |
| Due from other governments | 289,638 | - | 289,638 |
| State and federal receivables | 189,518 | - | 189,518 |
| Other assets | 4,200 | - | 4,200 |
| Internal balances | 6,381 | (6,381) | - |
| Total current assets | <u>4,628,057</u> | <u>6,899,411</u> | <u>11,527,468</u> |
| NONCURRENT ASSETS | | | |
| Land, construction in progress | 702,357 | 637,085 | 1,339,442 |
| Buildings, machinery, equipment, and infrastructure, net | 19,863,164 | 24,625,559 | 44,488,723 |
| Total noncurrent assets | <u>20,565,521</u> | <u>25,262,644</u> | <u>45,828,165</u> |
| Total assets | <u>25,193,578</u> | <u>32,162,055</u> | <u>57,355,633</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>825,377</u> | <u>1,273,591</u> | <u>2,098,968</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and other current liabilities | 168,578 | 1,872,820 | 2,041,398 |
| Interest payable | 10,559 | 5,268 | 15,827 |
| Advance billings and payments | - | 660,944 | 660,944 |
| Due to other governments | 69,799 | 98,687 | 168,486 |
| Customer deposits | - | 231,926 | 231,926 |
| Bond anticipation notes payable | - | 2,235,000 | 2,235,000 |
| Current maturities of long-term debt | 205,000 | 412,500 | 617,500 |
| Current maturities of notes payable | - | 267,825 | 267,825 |
| Total current liabilities | <u>453,936</u> | <u>5,784,970</u> | <u>6,238,906</u> |
| NONCURRENT LIABILITIES | | | |
| Bonds payable | 1,665,000 | 3,389,750 | 5,054,750 |
| Notes payable | - | 375,514 | 375,514 |
| Compensated absences | 33,737 | 28,930 | 62,667 |
| Net pension liability | 1,061,365 | 850,086 | 1,911,451 |
| Other postemployment benefits | 1,594,675 | 1,019,547 | 2,614,222 |
| Total noncurrent liabilities | <u>4,354,777</u> | <u>5,663,827</u> | <u>10,018,604</u> |
| Total liabilities | <u>4,808,713</u> | <u>11,448,797</u> | <u>16,257,510</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>277,091</u> | <u>154,766</u> | <u>431,857</u> |
| NET POSITION | | | |
| Net investment in capital assets | 18,900,521 | 18,582,055 | 37,482,576 |
| Restricted for | | | |
| Capital improvements | 1,793,200 | 635,612 | 2,428,812 |
| Insurance | 28,331 | - | 28,331 |
| Other | 200,067 | 340,012 | 540,079 |
| Unrestricted | 11,032 | 2,274,404 | 2,285,436 |
| Total net position | <u>\$ 20,933,151</u> | <u>\$ 21,832,083</u> | <u>\$ 42,765,234</u> |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Statement of Activities

Year Ended May 31, 2017

| Functions/Programs | Program Revenue | | | Net (Expenses) Revenues and Changes in Net Position | | | |
|--|----------------------|-------------------------|--|--|----------------------------|-----------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General government support | \$ 1,407,952 | \$ 302,129 | \$ 259,155 | \$ - | \$ (846,668) | \$ - | \$ (846,668) |
| Public safety | 2,156,142 | 850,309 | 17,862 | - | (1,287,971) | - | (1,287,971) |
| Transportation | 1,812,848 | - | - | 127,439 | (1,685,409) | - | (1,685,409) |
| Economic opportunity and assistance | 34,834 | - | - | - | (34,834) | - | (34,834) |
| Culture and recreation | 119,980 | 61,810 | - | - | (58,170) | - | (58,170) |
| Home and community services | 1,527,682 | 56,998 | - | - | (1,470,684) | - | (1,470,684) |
| Interest on long-term debt | 71,618 | - | - | - | (71,618) | - | (71,618) |
| Total governmental activities | 7,131,056 | 1,271,246 | 277,017 | 127,439 | (5,455,354) | - | (5,455,354) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Electric | 21,288,655 | 21,119,492 | - | - | - | (169,163) | (169,163) |
| Total government | \$ 28,419,711 | \$ 22,390,738 | \$ 277,017 | \$ 127,439 | (5,455,354) | (169,163) | (5,624,517) |
| GENERAL REVENUES | | | | | | | |
| Real property tax and related tax items | | | | | 2,710,837 | - | 2,710,837 |
| Non-property taxes | | | | | 1,721,804 | - | 1,721,804 |
| Other general revenue items | | | | | - | 51,220 | 51,220 |
| Miscellaneous local sources | | | | | 407,136 | - | 407,136 |
| Sale of property and compensation for loss | | | | | 20,707 | - | 20,707 |
| Use of money and property | | | | | 154,205 | 38,763 | 192,968 |
| Total general revenues | | | | | 5,014,689 | 89,983 | 5,104,672 |
| CHANGE IN NET POSITION | | | | | (440,665) | (79,180) | (519,845) |
| NET POSITION, beginning of year, as previously stated | | | | | 21,373,816 | 25,926,798 | 47,300,614 |
| Correction of prior period error | | | | | - | (4,015,535) | (4,015,535) |
| NET POSITION, beginning of year, as restated | | | | | 21,373,816 | 21,911,263 | 43,285,079 |
| NET POSITION, end of year | | | | | \$ 20,933,151 | \$ 21,832,083 | \$ 42,765,234 |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Balance Sheet - Governmental Funds

| | May 31, 2017 | | |
|--|---------------------|--------------------|---------------------|
| | General | Non-Major Funds | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,218,936 | \$ 685,705 | \$ 1,904,641 |
| Cash and cash equivalents, restricted | 1,998,092 | 23,506 | 2,021,598 |
| Accounts receivable | 35,161 | 4,393 | 39,554 |
| Due from other governments | 289,638 | - | 289,638 |
| Due from other funds | 37,619 | 44,347 | 81,966 |
| Due from State and Federal governments | 189,518 | - | 189,518 |
| Prepaid expenses | 172,527 | - | 172,527 |
| Other assets | - | 4,200 | 4,200 |
| | \$ 3,941,491 | \$ 762,151 | \$ 4,703,642 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ 126,230 | \$ 42,348 | \$ 168,578 |
| Due to NYS Retirement System | 69,799 | - | 69,799 |
| Due to other funds | 75,585 | - | 75,585 |
| | 271,614 | 42,348 | 313,962 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| | 71,681 | - | 71,681 |
| FUND BALANCES | | | |
| Nonspendable | 172,527 | - | 172,527 |
| Restricted | 1,998,092 | 23,085 | 2,021,177 |
| Committed | - | 507,911 | 507,911 |
| Assigned | - | 188,807 | 188,807 |
| Unassigned | 1,427,577 | - | 1,427,577 |
| Total fund balances | 3,598,196 | 719,803 | 4,317,999 |
| | \$ 3,941,491 | \$ 762,151 | \$ 4,703,642 |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

| | <u>May 31, 2017</u> |
|--|------------------------------------|
| Total fund balances in the fund financial statements for the governmental funds | \$ 4,317,999 |
| This amount differs from the amount of net position shown in the statement of net position due to the following: | |
| Capital assets are included as assets in the government-wide statements and are added, net of accumulated depreciation. | 20,565,521 |
| Some liabilities (listed below) are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Bonds payable | (1,870,000) |
| Accrued interest | (10,559) |
| Compensated absences | (33,737) |
| Net pension liability, net of deferred amounts | (513,079) |
| Other postemployment benefits | <u>(1,594,675)</u> |
| | (4,022,050) |
| Receivable balances not collected within the Village's availability period are reported as deferred inflows of resources in the fund financial statements. | <u>71,681</u> |
| Total net position, end of year | <u><u>\$ 20,933,151</u></u> |

Village of Fairport, New York

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

| | Year Ended May 31, 2017 | | |
|---|-------------------------|--------------------|---------------------|
| | General | Non-Major Funds | Total |
| REVENUES | | | |
| Real property taxes | \$ 2,594,344 | \$ - | \$ 2,594,344 |
| Real property tax items | 116,493 | - | 116,493 |
| Non-property tax items | 1,721,804 | - | 1,721,804 |
| Departmental revenues | 38,835 | - | 38,835 |
| Intergovernmental charges | 885,191 | - | 885,191 |
| Use of money and property | 142,405 | 11,800 | 154,205 |
| Fines and forfeitures | 36,092 | - | 36,092 |
| Licenses and permits | 54,133 | - | 54,133 |
| Sale of property and compensation for loss | 20,707 | - | 20,707 |
| Miscellaneous local sources | 398,702 | 8,434 | 407,136 |
| Interfund revenues | 256,995 | - | 256,995 |
| State aid | 404,456 | - | 404,456 |
| Total revenues | 6,670,157 | 20,234 | 6,690,391 |
| EXPENDITURES | | | |
| General government support | 794,553 | 488,667 | 1,283,220 |
| Public safety | 1,504,524 | 89,486 | 1,594,010 |
| Transportation | 848,077 | 413,585 | 1,261,662 |
| Economic opportunity and assistance | 26,490 | - | 26,490 |
| Culture and recreation | 86,984 | - | 86,984 |
| Home and community services | 628,139 | 30,128 | 658,267 |
| Employee benefits | 1,384,602 | - | 1,384,602 |
| Debt service | | | |
| Principal | 180,000 | 195,000 | 375,000 |
| Interest | 25,081 | 31,287 | 56,368 |
| Total expenditures | 5,478,450 | 1,248,153 | 6,726,603 |
| Excess (deficiency) of revenues over expenditures | 1,191,707 | (1,227,919) | (36,212) |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | - | 1,384,992 | 1,384,992 |
| Operating transfers out | (1,384,992) | - | (1,384,992) |
| Proceeds from bonds | - | 1,055,000 | 1,055,000 |
| Premiums on bonds | - | 28,443 | 28,443 |
| Payments to escrow agent | - | (1,016,269) | (1,016,269) |
| Bond issuance costs | - | (67,174) | (67,174) |
| | (1,384,992) | 1,384,992 | - |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (193,285) | 157,073 | (36,212) |
| FUND BALANCES, beginning of year | 3,791,481 | 562,730 | 4,354,211 |
| FUND BALANCES, end of year | \$ 3,598,196 | \$ 719,803 | \$ 4,317,999 |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities

| | | <u>Year Ended May 31, 2017</u> |
|--|--------------------|------------------------------------|
| Net change in fund balances shown for total governmental funds | \$ | (36,212) |
| <p>This amount differs from the change in net position shown in the statement of activities because of the following:</p> | | |
| <p>Capital outlays for acquisition of capital assets are recorded in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which expenditures for acquisition of capital assets exceeded depreciation expense for the period.</p> | | |
| Capital expenditures and loss on disposal of capital assets | 865,301 | |
| Gain/loss on disposal of assets | (384) | |
| Depreciation expense | <u>(1,399,770)</u> | (534,853) |
| <p>Other postemployment obligations and the net pension liability are not reported in the governmental funds. This liability is shown in the statement of net position as a noncurrent liability and in the statement of activities as an expense.</p> | | |
| | | (161,373) |
| <p>Bond principal payments are shown as expenditures in the governmental funds. These payments are shown in the statement of net position as a reduction of the related liabilities, and not shown as an expense in the statement of activities. This is the payment amount for the current year, net of issuances from the bond refinancing.</p> | | |
| | | 300,000 |
| <p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due.</p> | | |
| | | (7,424) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds; this includes compensated absences (vacation and sick leave).</p> | | |
| | | <u>(803)</u> |
| Change in net position of governmental activities shown in the statement of activities | \$ | <u>(440,665)</u> |

Village of Fairport, New York
Statement of Net Position - Enterprise Fund

| | May 31, 2017 |
|---|--------------------------|
| | Electric Fund |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 3,802,967 |
| Cash and cash equivalents, restricted | 1,207,550 |
| Accounts receivable, net | 468,109 |
| Due from other funds | 31,238 |
| Inventory | 906,549 |
| Prepaid expenses | 520,617 |
| Total current assets | 6,937,030 |
| CAPITAL ASSETS, net | 25,262,644 |
| Total assets | 32,199,674 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension resources | 630,252 |
| Other | 643,339 |
| Total deferred outflows of resources | 1,273,591 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | |
| CURRENT LIABILITIES | |
| Accounts payable | 1,387,483 |
| Accrued interest payable | 5,268 |
| Accrued payroll related expenses | 145,325 |
| Customer deposits | 231,926 |
| Due to other funds | 37,619 |
| Due to other governments | 98,687 |
| Advanced billing and payments | 660,944 |
| Other accrued liabilities | 340,012 |
| Bond anticipation notes payable | 2,235,000 |
| Bonds payable, due within one year | 412,500 |
| Notes payable, due within in one year | 267,825 |
| Total current liabilities | 5,822,589 |
| NONCURRENT LIABILITIES | |
| Bonds payable | 3,389,750 |
| Notes payable | 375,514 |
| Compensated absences | 28,930 |
| Net pension liability | 850,086 |
| Other postemployment benefits | 1,019,547 |
| Total noncurrent liabilities | 5,663,827 |
| Total liabilities | 11,486,416 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension resources | 129,112 |
| Other | 25,654 |
| | 154,766 |
| NET POSITION | |
| Net investment in capital assets | 18,582,055 |
| Restricted | 975,624 |
| Unrestricted | 2,274,404 |
| Total net position | \$ 21,832,083 |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Statement of Revenues, Expenditures, and Changes in Net Position - Enterprise Fund

| | <u>Year Ended May 31, 2017 Electric Fund</u> |
|---|--|
| OPERATING REVENUES | |
| Charges for services | \$ 21,119,492 |
| OPERATING EXPENSES | |
| Personal services | 2,882,350 |
| Employee benefits | 1,350,418 |
| Contractual expenses | |
| Administration and other support | 1,148,823 |
| Services, supplies, and operations | 14,171,005 |
| Depreciation | 1,618,448 |
| Total operating expenses | <u>21,171,044</u> |
| Operating loss | <u>(51,552)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest revenue | 2,524 |
| Other revenue | 51,220 |
| Rental revenue | 36,239 |
| Interest expense | (117,611) |
| Total nonoperating expenses | <u>(27,628)</u> |
| Decrease in net position | <u>(79,180)</u> |
| NET POSITION, <i>beginning of year, as previously stated</i> | 25,926,798 |
| Correction of prior period error | <u>(4,015,535)</u> |
| NET POSITION, <i>beginning of year, as restated</i> | <u>21,911,263</u> |
| NET POSITION, <i>end of year</i> | <u>\$ 21,832,083</u> |

Village of Fairport, New York

Statement of Cash Flows - Enterprise Funds

| | Year Ended May 31, 2017 |
|---|------------------------------------|
| | Electric Fund |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Cash received from providing services | \$ 21,798,899 |
| Cash payments for contractual expenses | (14,267,851) |
| Cash payments for personal services | (2,861,547) |
| Cash payments for employee benefits | (2,435,314) |
| | 2,234,187 |
| NET CASH PROVIDED (USED) BY NON-CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Advances to other Village funds | (34,262) |
| | (34,262) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from issuance of BANs | 1,420,000 |
| Proceed from notes payable | 257,578 |
| Principal payments on bonds and notes | (594,101) |
| Interest expense | (118,238) |
| Acquisition of capital assets | (2,096,704) |
| | (1,131,465) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | |
| Interest and miscellaneous revenue received | 89,983 |
| | 89,983 |
| Net increase in cash and cash equivalents | 1,158,443 |
| CASH AND CASH EQUIVALENTS, beginning of year | 3,852,074 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 5,010,517 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating loss | \$ (51,552) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities | |
| Depreciation | 1,618,448 |
| Loss on disposition of capital assets | 110,608 |
| Change in assets and liabilities | |
| Prepaid expenses | 33,665 |
| Accounts receivable | 168,535 |
| Inventory | 121,144 |
| Deferred outflows of resources | 700,749 |
| Accounts payable and accrued expenses | 102,898 |
| Accrued other postemployment benefits | 82,939 |
| Customer deposits | 15,731 |
| Accrued payroll related expenses | 20,803 |
| Accrued sales tax | (19,021) |
| Advanced payments and billings | 510,872 |
| Other liabilities | (559,357) |
| Due to other governments | 20,312 |
| Net pension liability | (592,824) |
| Compensated absences | (3,141) |
| Deferred inflows of resources | (46,622) |
| | \$ 2,234,187 |

See accompanying Notes to Financial Statements.

Village of Fairport, New York

Statement of Fiduciary Net Position - Fiduciary Fund

| | <u>May 31, 2017</u> <u>Trust and</u> <u>Agency</u> |
|---------------------------|--|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 13,133</u> |
| LIABILITIES | |
| Agency liabilities | <u>\$ 13,133</u> |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies

The accompanying basic financial statements of the Village of Fairport, New York (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing government accounting and financial reporting principles in the United States of America.

The basic financial statements have been prepared primarily from accounts maintained by the Village Treasurer. Additional data has been derived from reports prescribed by the Village Treasurer and other Village departments.

a. Financial Reporting Entity

The Village was incorporated in 1867 and is governed by Village Law, other general laws of the State of New York, and various local laws. The Board of Trustees is the legislative body responsible for overall operations. The Mayor serves as Chief Executive Officer, and the Village Treasurer serves as the Chief Fiscal Officer.

The following basic services are provided: police, fire, sanitary and storm sewers, street maintenance, snow removal, sidewalks, garbage and refuse collection, and electric.

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

The financial reporting entity consists of (a) the primary government which is the Village, (b) organizations for which the Village is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statements No. 14 and No. 39.

The decision to include a potential component unit in the Village's reporting entity is based on several criteria set forth in GASB No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the Village's reporting entity:

Excluded from the reporting entity:

The Fairport Urban Renewal and Industrial Development Agencies are Public Benefit Corporations created by state legislation to promote the economic welfare, recreation of opportunities, and prosperity of Village inhabitants. Members of the agencies are appointed by the Board of Trustees, but the Board of Trustees exercises no oversight responsibility. Agency members have complete responsibility for management of the agencies and accountability for fiscal matters. The Village is not liable for agency bonds or notes.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

b. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Village. The effect of interfund activity within the governmental and business-type activities has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents the financial position of the Village at the end of its fiscal year. The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been allocated and are reported as direct program expenses of individual functions and programs. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not included as program revenues are reported as general revenues, as required.

Separate statements are provided for governmental funds, the enterprise fund, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the enterprise funds are charges to customers for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, depreciation costs, and benefit costs. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

c. Fund Financial Statements

The accounts of the Village are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues, expenditures/expenses, other financing sources (uses), and transfers and capital contributions. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Village maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. The Village maintains a fiduciary fund, which is used to account for assets held in an agency capacity.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

c. Fund Financial Statements - Continued

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, reconciliations are presented on the pages following, which briefly explain the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation. The Village's resources are reflected in the fund financial statements in three broad fund categories in accordance accounting principles generally accepted by the United States of America (U.S. GAAP), as follows:

Governmental Funds - Governmental funds are those through which most general government functions are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following is the Village's major governmental fund:

General Fund - The General Fund constitutes the principal operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

The Village's non-major funds include Capital Projects, Permanent, and Debt Service.

Proprietary Funds - Proprietary funds reported by the Village are enterprise fund types. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is necessary for management accountability. Enterprise funds are used to account for those operations that provide services to the public. The following is the Village's proprietary fund:

Electric Fund - The Electric Fund is self-supporting through charges to customers in the Village's franchise area based on electric usage. The Electric Fund is subject to regulation by the State of New York Public Service Commission (PSC) with respect to wholesale power purchased, rate structure, accounting, and other matters.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the Village in an agency capacity on behalf of others. The following is the Village's fiduciary fund:

Trust and Agency - The Trust and Agency Fund is used to account for money (and/or property) received and held by the Village in the capacity of trustee, custodian, or agent.

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenue in the year in which they are earned. Grants, entitlements, and donations are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or collected within 120 days of the end of the current fiscal period. Receivables not expected to be collected within the next 120 days are offset by a deferred inflow of resources. Expenditures and related liabilities are generally recorded in the accounting period the liability is incurred to the extent it is expected to be paid within the next twelve months, with the exception of items covered by GASB Interpretation No. 6 (GASBI 6), *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. GASBI 6 requires that expenditures and liabilities, such as debt service, compensated absences, and claims and judgments be recorded in the governmental fund statements only when they mature or become due for payment within the period. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met. Nonexchange grants and subsidies are recognized as expenditures when all requirements of the grant and/or subsidy have been satisfied.

In addition, PSC regulations require that the records for the Electric Fund be maintained in accordance with the *Uniform System of Accounts for Municipal Electric Utilities*. The financial statements of the Electric Fund are presented in a form prescribed by the Federal Energy Regulatory Commission (FERC) and the PSC. Operating revenues of the Electric Fund are determined based on customer usage and demand charged at base rates for each consumer class approved by the PSC. Purchased power costs incurred in excess of those costs included in the base rate calculation are passed on to the consumer at no profit or loss to the Electric Fund by means of a "Purchased Power Adjustment" (PPA) factor.

e. Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures, and other financing sources (uses) during the reporting period. Actual results could differ from those estimates.

f. Budgets

Budgets are adopted on the modified accrual basis for governmental funds as required by the State of New York. Annual appropriated budgets are adopted for the General Fund, which employs a budgetary process based on the constraints of grant budgets.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

f. Budgets - Continued

The Village employs the following budgetary procedures:

- i. No later than March 15, the budget officer submits a tentative budget to the Village Clerk for the fiscal year commencing the following June 1. The tentative budget includes proposed expenditures and the proposed means of financing for all operating funds for the Village.
- ii. After a public hearing is conducted to obtain taxpayer comments, but no later than May 15, the Village adopts the budget.
- iii. All revisions that alter appropriations of any department or fund must be approved by the Village Board. Unencumbered budgetary appropriations lapse at the close of each fiscal year, with the exception of capital projects.
- iv. Budgetary appropriations are established for individual capital projects through resolutions authorizing the corresponding Capital Projects Fund to be established which remain in effect for the life of the project.

g. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and time deposits, which mature no more than three months after the date purchased.

The Village's investment policies are governed by State statutes and various resolutions of the Board of Trustees. Village monies must be maintained in demand accounts or certificates of deposit in an FDIC-insured commercial bank or trust company authorized to do business in New York State. Other permissible investments include obligations of the U.S. Treasury, U.S. Agencies, and New York State or its localities.

The Village is required to collateralize its cash deposits in excess of the Federal Deposit Insurance Corporation limit. This collateral is in the form of government and government agencies' securities pledged by the bank, under a third-party trust agreement. As of May 31, 2017, the collateral was sufficient to secure the Village's deposits.

Restricted cash and cash equivalents are reserved for purposes stipulated by external parties and purposes established by the Board in accordance with General Municipal Law.

Restricted cash and cash equivalents are held by the Electric Fund for the following purposes:

Depreciation Fund - Transfers to this fund may be made up to, but not in excess of, the prior year's depreciation expense and are used for replacements of the utility plant. The balance in the Depreciation Fund was \$635,467 at May 31, 2017.

Customer Deposits Fund - The Electric Fund requires deposits from certain customers prior to providing service. Unused deposits are returned to customers when service is terminated. The balance of the Customer Deposits Fund was \$232,071 at May 31, 2017.

Energy Efficiency Reserve - The Electric Fund collects funds restricted for energy efficient projects. The balance at May 31, 2017 was \$340,012.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

g. Cash and Cash Equivalents - Continued

Restricted cash and cash equivalents are held by the General Fund for the following purposes:

Capital Reserve - The Capital Reserve is to fund future capital projects. The balance of the Capital Reserve was \$1,769,694 at May 31, 2017.

Insurance Reserve - This reserve was established to cover the deductibles of the Village's various insurance plans in the case of an emergency. The balance of the Insurance Reserve was \$28,331 at May 31, 2017.

Other Reserve - This reserve was established to hold assets seized by law enforcement during regular and special operations, until such time that it is determined the Village may retain the property. The balance of the Other Reserve was \$200,067 at May 31, 2017.

h. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

i. Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. The allowance for doubtful accounts in the Electric Fund at May 31, 2017 was \$12,939.

Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account receivable of the Electric Fund is considered to be past due if any portion of the receivable balance is outstanding for more than twenty days. Interest is charged on accounts receivable that are outstanding for more than one month at .125% per month and is recognized as it is charged. Interest continues to accrue while an account remains active. Once service is terminated and a final bill is issued, interest charges are suspended.

j. Inventory

Inventory of the Electric Fund is valued at the lower of cost or market with cost determined using a rolling average unit cost method. Inventory materials recovered and returned to stock in construction, maintenance, or the retirement of operating property are valued at current replacement prices. Each year, the inventory is reviewed for obsolescence, and an adjustment is made to record the affected inventory item at its fair value. There were no obsolete inventory items identified in the Electric Fund as of May 31, 2017.

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

k. Capital Assets

Governmental Activities

Capital assets in governmental activities consist of land, buildings, machinery and equipment, and infrastructure and are used to carry out day-to-day government services. Depreciation of capital assets for governmental funds is computed using the straight-line method of depreciation over useful lives of the asset, as the following schedule indicates:

| | |
|----------------|--------------|
| Buildings | 40 years |
| Equipment | 5-40 years |
| Infrastructure | 20-100 years |

Electric Fund

Under the provisions of the *Uniform System of Accounts for Municipal Electric Utilities*, operating property is recorded at cost, including capitalized labor and overhead. Overhead costs include fringe benefits, warehouse, and truck costs. Operating property constructed with capital fees received from customers or other parties is included in utility plant. When operating property is retired, the book cost, together with the cost of removal, is charged to accumulated depreciation.

The provision for depreciation has been computed, based on asset groups, under the straight-line method utilizing rates approved by the Electric Fund. These rates range from 1.7% to 12.5% per annum and are within the ranges recommended by the Federal Energy Regulatory Commission (FERC) and the PSC.

Repairs and Maintenance Costs and Impairment of Long-lived Assets

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the operating property using the applicable depreciation methods.

Management periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2017.

l. Advanced Billings and Payments

Advanced billings and payments in the Electric Fund of \$660,944 represent the cumulative over collection of the Purchase Power Adjustment (PPA) applied to customer invoices. This amount was credited to customers through the PPA in June and July of 2017.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

m. Employee Benefits

Compensated Absences

Pursuant to a resolution of the Village Board and contractual agreements, Village employees are entitled to accrue a maximum of 200 days of sick leave and 5 days of vacation leave. Employees with at least 60 days of sick leave may be paid for a maximum of 8 days, and employees with at least 180 days of sick leave may be paid for a maximum of 14 days of sick leave at the rate of \$150 per day paid in the first pay period of June; but accumulated sick leave for purposes of these payments may not fall below 60 days. An individual who leaves the employment of the Village is entitled to be paid only for unused vacation leave. No payments are made for unused personal or sick leave. Members of the Village Police Department may accrue a maximum of 175 days of sick leave and 5 days of vacation leave. Police may be paid for a maximum of 8 days of personal, sick, and/or vacation leave at straight time in the pay check of the pay period containing the employee's anniversary date. Expenditures for these fringe benefits are recognized at the time the benefit is paid, and payments for any earned and unused leave credits will be funded in future budgets.

The liability for compensated absences was as follows:

| | <u>May 31, 2017</u> |
|--------------------|---------------------|
| Governmental funds | \$ 33,737 |
| Proprietary funds | <u>28,930</u> |
| | <u>\$ 62,667</u> |

Postretirement Benefits

The Village provides health insurance coverage for employees with a minimum of 10 years of full-time service who retire into the NYS Retirement System. The contribution is based on the Village's contribution for a one- or two-person policy at the time of retirement in the following percentages: 100% for employees with at least 20 years of service; 75% for employees with at least 15 years but less than 20 years of service; and 50% for employees with at least 10 but less than 15 years of service. Non-police employees are covered for six years or until age 65, whichever is longer. For police with 10 but less than 15 years of service, 50% until age 65, and for police with more than 15 years of service, 100% until age 65.

The Village participates in the Finger Lakes Health Insurance Trust, a consortium of local municipalities, that competitively bids credible experience rated coverage for the members of the trust. The Village recognizes the cost of providing such benefits by recording its share of insurance premiums as an expenditure the year paid. During the year, \$425,978 was paid by the Village, and \$423,876 was paid by the Electric Fund on behalf of 60 employees and 9 retirees. The cost of providing benefits for retirees is not separable from the cost of providing benefits for active employees.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

n. Net Position

Net position is reported as restricted when constraints placed on net position use are either:

- a. Externally imposed by creditors (such as debt covenants), grantors, contributors, laws, or regulations of other governments, or
- b. Imposed by law through constitutional provisions or enabling legislation.

The following terms are used in reporting net position:

Net Investment in Capital Assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted consists of monies restricted for various purposes including capital improvements and insurance.

Unrestricted is the net amount of assets and liabilities that is not included in the determination of net investment in capital assets or restricted components of net position described above.

o. Fund Balance

Fund balance for governmental funds is reported in the following classifications which describe the relative strength of the constraints that control how specific amounts in the funds can be spent:

Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact.

Restricted - Amounts that have restraints that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action, such as legislation, resolution, or ordinance by the government's highest level of decision-making authority.

Assigned - Amounts that are constrained only by the government's intent to be used for a specified purpose but are not restricted or committed in any manner.

Unassigned - The residual amount in the General Fund after all of the other classifications have been established. In a Special Revenue Fund, if expenditures and other financing uses exceed the amounts restricted, committed, or assigned for those purposes, then a negative unassigned fund balance will occur.

The Village's fund balance policy is set by the Village Board, the highest level of decision-making authority. The Village Board considers "formal action" for a committed fund balance to be the passing of a Board resolution. The Board has delegated the ability to assign fund balance to the Treasurer. The Village considers fund balance spent in the order of restricted, committed, assigned, and unassigned.

Note 6 provides further details regarding the Village's fund balance classifications.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

p. Property Taxes

Real property taxes are levied no later than May 15 and become a lien on June 1. The Village collects its own taxes. Taxes are collected during the month of June without penalty. A 5% penalty is assessed on taxes paid after July 1, and an additional 1% is assessed each month on taxes paid after July. Unpaid Village taxes are collected through tax sales.

q. Subsequent Events

The Village has evaluated subsequent events for potential recognition or disclosure through January 26, 2018, the date the financial statements were available to be issued.

r. Restatement

At the suggestion of the PSC, the Fairport Municipal Commission (FMC) undertook a project to evaluate the usefulness of contributed assets towards its rate making processes. During this project, the FMC determined a significant portion of assets with a net book value of approximately \$4 million had no value because these assets would ultimately not be utilized to generate future revenues. As a result, the FMC has restated the Electric Fund's opening net position as outlined below to account for the known prior period reduction in capital assets.

| | As Originally Stated May 31, 2016 | Capital Asset Write-down | As Restated May 31, 2016 |
|----------------------------------|---|-----------------------------|-----------------------------|
| Business-type Activities | | | |
| Electric Fund | | | |
| Capital assets, net | \$ 28,910,531 | \$ (4,015,535) | \$ 24,894,996 |
| Net investment in capital assets | 23,313,419 | (4,015,535) | 19,297,884 |

s. Adoption of New Accounting Standards

GASB Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by government, other than to abate taxes, as part of a tax abatement agreement.

The Village's tax abatement programs are substantially covered by related Payment In Lieu of Taxes (PILOT) agreements. The Village does not have any material PILOT agreements.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 2 - Stewardship, Compliance, and Accountability

Village administration prepares a proposed budget for approval by the Board of Trustees for the General Fund, the only fund with a legally adopted budget. The budget is adopted annually on a basis consistent with U.S. GAAP. Appropriations are adopted at the program line item level. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year and any appropriated reserve funds. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

Note 3 - Capital Assets

The following is a summary of changes in the governmental activities' capital assets during the year:

| | Balance at June 1, 2016 | Additions | Disposals | Balance at May 31, 2017 |
|-------------------------------|-------------------------------|--------------|-----------|-------------------------------|
| <i>Depreciable assets</i> | | | | |
| Buildings | \$ 2,976,842 | \$ - | \$ - | \$ 2,976,842 |
| Machinery and equipment | 4,316,621 | 476,881 | (104,701) | 4,688,801 |
| Infrastructure | 46,074,267 | 388,420 | - | 46,462,687 |
| Total capital assets | 53,367,730 | 865,301 | (104,701) | 54,128,330 |
| Accumulated depreciation | (32,969,713) | (1,399,770) | 104,317 | (34,265,166) |
| Total depreciable assets | 20,398,017 | (534,469) | (384) | 19,863,164 |
| <i>Non-depreciable assets</i> | | | | |
| Land | 702,357 | - | - | 702,357 |
| Total capital assets, net | \$ 21,100,374 | \$ (534,469) | \$ (384) | \$ 20,565,521 |

The following is a summary of changes in the proprietary funds' capital assets during the year:

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

| | (Restated) Balance at June 1, 2016 | Additions | Retirements/ Adjustments | Balance at May 31, 2017 |
|--|---|--------------------|-----------------------------|-------------------------------|
| <i>Depreciable assets</i> | | | | |
| Buildings | \$ 5,594,647 | \$ - | \$ - | \$ 5,594,647 |
| Machinery and equipment | 4,018,719 | 77,609 | (161,902) | 3,934,426 |
| Distribution, transmission, and other operational equipment | <u>37,120,448</u> | <u>1,982,079</u> | <u>(476,299)</u> | <u>38,626,228</u> |
| | 46,733,814 | 2,059,688 | (638,201) | 48,155,301 |
| Accumulated depreciation | <u>(22,438,887)</u> | <u>(1,618,448)</u> | <u>527,593</u> | <u>(23,529,742)</u> |
| Total depreciable assets, net | <u>24,294,927</u> | <u>441,240</u> | <u>(110,608)</u> | <u>24,625,559</u> |
| <i>Non-depreciable assets</i> | | | | |
| Land | 600,069 | - | - | 600,069 |
| Construction in progress | - | 37,016 | - | 37,016 |
| Total non-depreciable assets, net | <u>600,069</u> | <u>37,016</u> | <u>-</u> | <u>637,085</u> |
| Total capital assets, net | <u>\$ 24,894,996</u> | <u>\$ 478,256</u> | <u>\$ (110,608)</u> | <u>\$ 25,262,644</u> |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 4 - Bond Anticipation Notes Payable

The following is a summary of changes in BANs payable:

| Reported on | Balance at June 1, 2016 | Additions | Disposals | Balance at May 31, 2017 |
|-------------|-------------------------------|--------------|------------|-------------------------------|
| NERC Ban | \$ 815,000 | \$ 2,235,000 | \$ 815,000 | \$ 2,235,000 |

Note 5 - Noncurrent and Debt Related Liabilities

a. Bond Indebtedness

A summary of changes in bonds payable is as follows:

| | May 31, 2017 | | |
|---------------------------------|----------------------------|-------------------------|-------------------------|
| | Governmental Activities | Electric Fund | Total |
| Bonds payable, June 1, 2016 | \$ 2,170,000 | \$ 4,214,750 | \$ 6,384,750 |
| Refunding issuance | 1,055,000 | - | 1,055,000 |
| Payment to escrow agent | (980,000) | - | (980,000) |
| Repayments | (375,000) | (412,500) | (787,500) |
| Bonds payable, May 31, 2017 | <u>\$ 1,870,000</u> | <u>\$ 3,802,250</u> | <u>\$ 5,672,250</u> |

A summary of the Village's bond issues at May 31, 2017 is as follows:

| Description | Issue Date | Maturity Date | Interest Rate | Balance |
|---|---------------|------------------|------------------|-------------------------|
| General Fund | | | | |
| 2016 Public Improvement Serial Bond | 5/2017 | 5/2027 | 2.0% | \$ 1,040,000 |
| 2011 Public Improvement Refunding Serial Bond | 12/2011 | 11/2022 | 2.0-3.0% | 350,000 |
| 2011 Public Improvement Serial Bond | 9/2011 | 5/2030 | 2.91% | 480,000 |
| | | | | <u>1,870,000</u> |
| Electric Fund | | | | |
| 2011 Public Improvement Refunding Serial Bond | 12/2011 | 11/2022 | 2.0-3.0% | 1,262,250 |
| 2011 Public Improvement Serial Bond | 1/2014 | 4/2042 | 2.625-4.0% | 2,540,000 |
| | | | | <u>3,802,250</u> |
| Total bonds payable | | | | <u>\$ 5,672,250</u> |

Interest expense on General Fund debt was \$56,368 for the year ended May 31, 2017. Interest expense in the Electric Fund was \$117,611.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 5 - Noncurrent and Debt Related Liabilities - Continued

a. Bond Indebtedness - Continued

The following is a summary of the future debt service requirements including the results of the refunding discussed below:

| | Governmental Activities | | |
|-----------------------------|--------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| For the year ending May 31, | | | |
| 2018 | \$ 205,000 | \$ 22,378 | \$ 227,378 |
| 2019 | 200,000 | 19,887 | 219,887 |
| 2020 | 200,000 | 17,378 | 217,378 |
| 2021 | 205,000 | 14,869 | 219,869 |
| 2022 | 200,000 | 12,309 | 212,309 |
| 2023 through 2027 | 740,000 | 33,924 | 773,924 |
| 2028 through 2030 | 120,000 | 3,492 | 123,492 |
| | <u>\$ 1,870,000</u> | <u>\$ 124,237</u> | <u>\$ 1,994,237</u> |
| | | | |
| | Business-type Activities | | |
| | Principal | Interest | Total |
| For the year ending May 31, | | | |
| 2018 | \$ 412,500 | \$ 122,953 | \$ 535,453 |
| 2019 | 412,500 | 111,594 | 524,094 |
| 2020 | 412,500 | 99,219 | 511,719 |
| 2021 | 412,500 | 86,844 | 499,344 |
| 2022 | 408,250 | 74,803 | 483,053 |
| 2023 through 2027 | 1,174,000 | 230,750 | 1,404,750 |
| 2028 through 2030 | 570,000 | 114,000 | 684,000 |
| | <u>\$ 3,802,250</u> | <u>\$ 840,163</u> | <u>\$ 4,642,413</u> |

During the fiscal year ended May 31, 2017, the Village refunded \$980,000 in existing fixed rate bonds by issuing refunding bonds at a par value of \$1,055,000 at a premium of \$28,443. The result will produce an estimated gain of \$70,848 in future cash flows, with an estimated present value cash of \$67,871.

b. Notes Payable

A summary of the Village's outstanding notes payable at May 31, 2017 is as follows:

| Description | Issue Date | Maturity Date | Interest Rate | Balance |
|-------------------|------------|---------------|---------------|-------------------|
| Electric Fund | | | | |
| NYPA Loan 2013-14 | 2/2014 | 6/2019 | 0.00% | \$ 187,982 |
| NYPA Loan 2015-16 | 1/2016 | 4/2042 | 0.000% | 197,779 |
| NYPA Loan 2016-17 | May-17 | May-20 | 0.000% | 257,578 |
| | | | | <u>\$ 643,339</u> |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 5 - Noncurrent and Debt Related Liabilities - Continued

b. Notes Payable - Continued

The following is a summary of the future debt service requirements for notes payable:

| | Principal |
|-----------------------------|------------|
| For the year ending May 31, | |
| 2018 | \$ 274,980 |
| 2019 | 274,980 |
| 2020 | 93,379 |
| | \$ 643,339 |

c. Non-Current and Debt Related Liabilities

Compensated Absences - As explained in Note 1.I., the Village records the value of governmental fund type compensated absences in the governmental activities. The payment of compensated absences is dependent on many factors, and therefore, cannot be reasonably estimated as to future timing of payment. The annual budgets of the operating funds provide for such amounts as they become payable.

Summary of Changes - The following tables summarize changes in the Village's non-current and debt related liabilities:

Change in long-term liabilities - governmental activities:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|----------------------|--------------|----------------|-------------------|------------------------|
| Compensated absences | \$ 33,076 | \$ 661 | \$ - | \$ 33,737 | \$ - |
| Net pension liability | 1,807,170 | 605,857 | (1,351,662) | 1,061,365 | - |
| Other postemployment benefits | 1,616,351 | 113,000 | (134,676) | 1,594,675 | - |
| Bonds payable | 2,170,000 | 1,055,000 | (1,355,000) | 1,870,000 | 205,000 |
| Total | \$ 5,626,597 | \$ 1,774,518 | \$ (2,841,338) | \$ 4,559,777 | \$ 205,000 |

Change in long-term liabilities - business type activities:

| Description | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|-------------------------------|----------------------|------------|----------------|-------------------|------------------------|
| Compensated absences | \$ 32,071 | \$ - | \$ (3,141) | \$ 28,930 | \$ - |
| Net pension liability | 1,442,910 | 514,123 | (1,106,947) | 850,086 | - |
| Other postemployment benefits | 936,608 | 169,044 | (86,105) | 1,019,547 | - |
| Notes payable | 567,362 | 257,578 | (181,601) | 643,339 | 267,825 |
| Bonds payable | 4,214,750 | - | (412,500) | 3,802,250 | 412,500 |
| Total | \$ 7,193,701 | \$ 940,745 | \$ (1,790,294) | \$ 6,344,152 | \$ 680,325 |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 6 - Fund Balance

Fund balance is as follows:

| | General | Nonmajor |
|--------------------------|--------------|------------|
| Nonspendable | \$ 172,527 | \$ - |
| Restricted for | | |
| Insurance reserve | 28,331 | - |
| Capital reserve | 1,769,694 | - |
| Other reserves | 200,067 | 23,085 |
| | 1,998,092 | 23,085 |
| Committed | - | 507,911 |
| Assigned for | | |
| Special revenue purposes | - | 188,807 |
| | - | - |
| Unassigned | 1,427,577 | - |
| Total fund balance | \$ 3,598,196 | \$ 719,803 |

Note 7 - Interfund Transactions

Interfund balances are as follows at May 31, 2017:

| | Due To Other Funds | | |
|----------------------|-----------------------------|-----------|------------|
| Due From Other Funds | General | Electric | Total |
| General | \$ - | \$ 37,619 | \$ 37,619 |
| Capital Projects | 43,087 | - | 43,087 |
| Permanent | 1,260 | - | 1,260 |
| Electric | 31,238 | - | 31,238 |
| | \$ 75,585 | \$ 37,619 | \$ 113,204 |
| | Transfers To Other Funds | | |
| | General | | |
| Permanent | \$ 6,280 | | |
| Capital Projects | 1,229,119 | | |
| Debt Service | 149,593 | | |
| | \$ 1,384,992 | | |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System

a. Plan Description and Benefits Provided

The Village participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) which are collectively referred to as the New York State and Local Retirement System (the System). The System provides 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 provide benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the System at www.osc.state.ny.us/retire.

The System provides retirement, disability, and death benefits for eligible members, including an automatic cost of living adjustment. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

b. Plan Benefits

The System provides retirement benefits as well as death and disability benefits. Retirement benefits are established by the New York State Retirement and Social Security Law (RSSL) and are dependent upon the point in time at which the employees last joined the System. The RSSL has established distinct classes of membership. The System uses a tier concept within ERS and PFRS to distinguish these groups, as follows:

ERS

- Tier 1 - Those persons who last became members before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally, those persons who are State correction officers who last became members on or after July 27, 1976, but before January 1, 2010, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983, but before January 1, 2010.
- Tier 5 - Those persons who last became members on or after January 1, 2010, but before April 1, 2012.
- Tier 6 - Those persons who first became members on or after April 1, 2012.

PFRS

- Tier 1 - Those persons who last became members before July 31, 1973.
- Tier 2 - Those persons who last became members on or after July 31, 1973, but before July 1, 2009.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

b. Plan Benefits - Continued

PFRS - Continued

- Tier 3 - Those persons who last became members on or after July 1, 2009, but before January 9, 2010.
- Tier 4 - Not applicable.
- Tier 5 - Those persons who last became members on or after January 9, 2010, but before April 1, 2012, or who were previously PFRS Tier 3 members who elected to become Tier 5.
- Tier 6 - Those persons who first became members on or after April 1, 2012.

Generally, members of ERS and PFRS may retire at age 55; however, members of Tiers 2, 3, and 4 will receive a reduced benefit if they retire before age 62 with less than 30 years of service. Tier 5 members must be 62 years of age with at least 10 years of service credit to retire with full benefits. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members. Tier 6 members with 10 years of service or more can retire as early as age 55 with reduced benefits. A member with less than five years of service may withdraw and obtain a refund, including interest, of the accumulated employee contributions. Members who joined the System prior to January 1, 2010 generally need five years of service to be 100 percent vested. Members who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) need 10 years of service credit to be 100 percent vested.

Typically, the benefit for members in all Tiers within ERS and PFRS is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a Tier 1 or Tier 2 member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. If a Tier 3, 4, or 5 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 Tier 3, 4, or 5 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. Final average salary for Tiers 1 through 5 is the average of the wages earned in the three highest consecutive years of employment. Each year used in the final average salary calculation is limited to no more than 20 percent of the previous year (Tier 1) or no more than 20 percent of the average of the previous two years (Tier 2). For Tier 3, 4, and 5 members, each year used in the final average salary calculation is limited to no more than 10 percent of the average of the previous two years. The benefit for Tier 6 members who retire with 20 years of service is 1.75 percent of final average salary for each year of service. If a Tier 6 member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied to each year of service over 20 years. The final average salary for a Tier 6 member is computed as the average of the wages earned in the five highest consecutive years. Each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

b. Plan Benefits - Continued

An automatic postemployment benefit is provided annually to pensioners who have attained age 62 and have been retired for five years; to pensioners who have attained age 55 and have been retired for ten years; to all disability pensioners, regardless of age, who have been retired for five years; to ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and 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 greater than 3 percent.

c. Funding Policy

Employee contribution requirements depend upon the point in time at which an employee last joined the System. Most Tier 1 and Tier 2 members of ERS, and most members of PFRS are not required to make employee contributions. Employees in Tiers 3, 4, and 5 are required to contribute 3 percent of their salary, however, as a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees who have ten or more years of membership or credited service within the System are not required to contribute. The Tier 6 contribution rate varies from 3 percent to 6 percent depending on salary. Tiers 5 and 6 members are required to contribute for all years of service. Members cannot be required to begin contributing or to make increased contributions beyond what was required when their memberships began.

Participating employers are required under the RSSL to contribute to the System at an actuarially determined rate adopted annually by the Comptroller. The average contribution rate for ERS for the fiscal year ended March 31, 2017 was approximately 18.2 percent of payroll. The average contribution rate for PFRS for the fiscal year ended March 31, 2017 was approximately 24.7 percent of payroll.

The required contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

| <u>Year</u> | <u>ERS</u> | <u>PFRS</u> |
|-------------|------------|-------------|
| 2017 | \$ 617,750 | \$ 180,984 |
| 2016 | 714,150 | 190,584 |
| 2015 | 769,289 | 194,255 |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

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

At May 31, 2017, the Village reported a liability of \$1,393,583 for its proportionate share of the net pension liability of the ERS and a liability of \$517,868 for its proportionate share of the net pension liability of the PFRS. The net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016. The Village's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to the System's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the Village's proportionate share in the ERS was 0.0148313% and the PFRS was 0.0249858%.

For the year ended May 31, 2017, the Village recognized pension expense of \$1,119,990. At May 31, 2017, the Village reported deferred outflows of resources and deferred inflows of resources as follows (in thousands):

| | Governmental Activities | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 81,555 | \$ 172,009 |
| Changes of assumptions | 440,811 | - |
| Net differences between projected and actual investment earnings on pension plan investments | 185,901 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 47,311 | 105,082 |
| Contributions subsequent to the measurement date | 69,799 | - |
| Total | \$ 825,377 | \$ 277,091 |
| | Business-Type Activities | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 21,302 | \$ 129,090 |
| Changes of assumptions | 290,420 | - |
| Net differences between projected and actual investment earnings on pension plan investments | 169,797 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 74,000 | 22 |
| Contributions subsequent to the measurement date | 74,733 | - |
| Total | \$ 630,252 | \$ 129,112 |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

d. Pension Assets, Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - Continued

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2018. Amounts recognized as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

Governmental Activities

| | | |
|---------------------|----|-----------------------|
| Year ending May 31, | | |
| 2018 | \$ | 195,486 |
| 2019 | | 195,486 |
| 2020 | | 172,079 |
| 2021 | | (89,198) |
| 2022 | | <u>4,634</u> |
| Total | \$ | <u><u>478,487</u></u> |

Business-Type Activities

| | | |
|---------------------|----|-----------------------|
| Year ending May 31, | | |
| 2018 | \$ | 188,079 |
| 2019 | | 188,079 |
| 2020 | | 160,497 |
| 2021 | | <u>(110,248)</u> |
| Total | \$ | <u><u>426,407</u></u> |

e. Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. Significant actuarial assumptions used in the valuation were as follows:

| | ERS | PFRS |
|--|-------|-------|
| Investment rate of return (net of investment expense, including inflation) | 7.00% | 7.00% |
| Salary scale | 3.80% | 4.50% |
| Inflation | 2.50% | 2.50% |
| Cost of living adjustments | 1.30% | 1.30% |

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

e. Actuarial Assumptions - Continued

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

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.

f. Investment Asset Allocation

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 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 as of March 31, 2017, are summarized below:

| Asset Type | Target Allocation | Long-Term Expected Real Rate |
|----------------------------|----------------------|------------------------------------|
| Domestic equity | 36.00% | 4.55% |
| International equity | 14.00% | 6.36% |
| Private equity | 10.00% | 1.75% |
| Real estate | 10.00% | 5.80% |
| Absolute return strategies | 2.00% | 4.00% |
| Opportunistic portfolio | 3.00% | 5.89% |
| Real assets | 3.00% | 5.54% |
| Bonds and mortgages | 17.00% | 1.31% |
| Cash | 1.00% | -0.25% |
| Inflation-Indexed bonds | 4.00% | 1.50% |
| | 100.00% | |

g. Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 8 - New York State Retirement System - Continued

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

The following presents the Village's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0% and the impact of using a discount rate that is 1% higher or lower than the current rate:

| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
|--|------------------------|--------------------------------|------------------------|
| Village's proportionate share of the net pension liability (asset) | | | |
| Governmental Activities | \$ 3,203,949 | \$ 1,061,365 | \$ (743,778) |
| Business-Type Activities | 2,715,004 | 850,086 | (726,700) |

i. Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the New York State and Local Employees' Retirement System as of March 31, 2017 were as follows:

| | (Dollars in Thousands) | | |
|--|------------------------------------|---|----------------|
| | Employees' Retirement System | Police and Fire Retirement System | Total |
| Employers' total pension liability | \$ 177,400,586 | \$ 31,670,483 | \$ 209,071,069 |
| Plan net position | (168,004,363) | (29,597,831) | (197,602,194) |
| Employers' net pension liability | \$ 9,396,223 | \$ 2,072,652 | \$ 11,468,875 |
| Ratio of fiduciary net position to total pension liability | 94.7% | 93.5% | 94.5% |

Note 9 - Other Postemployment Benefits (OPEB)

a. Plan Overview

The Village provides certain health benefits subsequent to employment for eligible retirees. Effective March 30, 2007, the service requirement for receipt of health insurance in retirement is five consecutive years of service with the Village (ten years for all employees hired on or after March 30, 2007), and the employee must either: 1) continue to be employed by the Village on the last date immediately prior to retirement into the NYSERS; or 2) have been employed by the Village as his/her last public sector employer, and have continuously self-paid his/her health insurance premiums to, and remained enrolled in the Village's health insurance plan between the last date of service with the Village and the date of vesting receipt of benefits from the NYSERS, whichever is applicable, as set forth in the NYSERS Rules and Regulations (Part 256).

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 9 - Other Postemployment Benefits (OPEB) - Continued

b. Contributions

The Village has agreed to contribute a payment of 50% for individual coverage and 35% for family coverage toward all retirees' hospitalization insurance premium costs for eligible retirees. The Village contributes 100% of the premium payments for individual or family coverage for all employees covered by Article III(4)(b) during the employee's retirement.

c. Funding Policy

The contribution requirements of plan members and the Village are established and may be amended by the Village Board. The Village is not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to retirees. For the fiscal year ended May 31, 2017, the Village paid approximately \$221,000 on behalf of the plan members.

d. Annual OPEB Cost and Net OPEB Obligation

The annual required contribution (ARC) represents a level of funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated with interest as part of the net OPEB obligation, after adjusting for amounts previously "required." The Village's actual OPEB cost for the year, the amount actually paid on behalf of the plan, and changes in the Village's OPEB obligation to the plan for the year ended May 31, 2017 are as follows:

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Annual required contribution | \$ 177,026 | \$ 113,181 | \$ 290,207 |
| Interest on net OPEB obligation | 62,292 | 39,826 | 102,118 |
| Adjustment to annual required contribution | (126,318) | 16,037 | (110,281) |
| Annual OPEB cost/expense | 113,000 | 169,044 | 282,044 |
| Contributions made (expected) | (134,676) | (86,105) | (220,781) |
| Net OPEB obligation, <i>beginning of year</i> | 1,616,351 | 936,608 | 2,552,959 |
| Net OPEB obligation, <i>end of year</i> | <u>\$ 1,594,675</u> | <u>\$ 1,019,547</u> | <u>\$ 2,614,222</u> |

e. 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 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 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.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 9 - Other Postemployment Benefits (OPEB) - Continued

e. Actuarial Methods and Assumptions - Continued

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group according to the New York State Retirement System schedule, active non-police plan members were assumed to retire from age fifty-five to seventy. Police plan members are assumed to retire from age fifty-nine and older.

Marital status - 70% of employees are assumed married. Females are assumed to be three years younger than males. Actual spouse coverage information was used for retirees where available.

Mortality - Adjusted RP-2000 mortality, 15% blue collar, 85% white collar weighed, separate for males and females, projected to fiscal year beginning using scale MP-2016.

Turnover - The 2003 Society of Actuaries small plan withdrawal, scaled 75% for police, was used as the basis for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums ranged from 5.2%, starting in 2016, to 6.2% in 2020, to the ultimate trend rate of 3.8% thereafter.

Health insurance premiums - Calendar year 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate - No salary increases were assumed since benefits are not based on compensation.

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 4% was used. In addition, the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over a thirty-year period.

The Village contributes a fixed amount determined at retirement towards single or 2-person coverage for the later of 6 years or until the retiree reaches age 65. The fixed amount the Village pays is calculated based on years of service as follows:

| <u>Years of Service</u> | <u>Village Pays</u> |
|-------------------------|---------------------|
| 10 to 14 | 50% |
| 15 or more | 100% |

Retirees are responsible for any premium increase. For retirees whose 6 years of coverage extends beyond age 65, the Village contributes only to a Medicare supplement plan. Surviving spouses are eligible to continue coverage under the plan by paying 100% of premiums for coverage.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 10 - Commitments

a. Power Supply and Transmission Contracts

Electric power distributed by the Electric Fund is obtained from the New York Power Authority (NYPA) under a supply contract which expires during 2025. The Electric Fund is entitled to a specific amount of kilowatts of firm hydroelectric power and associated energy. Demand, energy, and transmission charges under this contract are subject to change and approval of regulatory authorities. There are no minimum capacity or other fixed charge components to this contract. Electric purchases under this contract totaled \$5,528,357 for the year ended May 31, 2017.

The Village's Electric Fund also purchases power in excess of that supplied by NYPA from the New York Municipal Power Agency (NYMPA), a not-for-profit joint action organization of which the Village is a member, and National Grid. Electric purchases, transmission charges, and other related charges under these agreements totaled \$4,484,950 and \$2,712,909, respectively, for the year ended May 31, 2017.

b. New York Independent System Operators (NYISO)

NYISO is a not-for-profit corporation under the aegis of the Federal Electric Regulatory Commission, with responsibility to provide free access to the electric transmission facilities within New York State. All NYISO costs are billed to users of the electric transmission grid. Pricing is market based rather than cost based. NYISO charges totaled \$526,657 for the year ended May 31, 2017. These costs are included in electricity purchased.

c. Lease for Operation of Water System

The Village entered into a retail lease agreement for the operation of its water and distribution system with the Monroe County Water Authority on October 13, 2004. The forty (40) year lease requires the Monroe County Water Authority to assume responsibility and cost for all repairs and replacements done to the system. The Village retains sole rights to revenues derived from antennae lease agreements in place prior to the lease agreement and will share in any additional agreement after that date. The Authority also assumes the responsibility for payment of the bond associated with the Fairport Municipal Commission Operations building allocated to the water operations prior to the agreement.

Note 11 - Accounting Pronouncements Issued But Not Yet Implemented

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 establishes financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. This standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information. These requirements are effective for fiscal years beginning after June 15, 2017.

Village of Fairport, New York

Notes to Financial Statements May 31, 2017

Note 11 - Accounting Pronouncements Issued But Not Yet Implemented - Continued

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and the recognition of inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Management has not estimated the extent of potential impact of these statements on the Village's financial statements.

Village of Fairport, New York

Required Supplementary Information Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund

| | Year Ended May 31, 2017 | | | |
|--|-------------------------|--------------------|---------------------|--|
| | Original Budget | Modified Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | |
| Real property taxes | \$ 2,594,071 | \$ 2,594,663 | \$ 2,594,344 | \$ (319) |
| Real property tax items | 109,695 | 109,695 | 116,493 | 6,798 |
| Non-property tax items | 1,571,000 | 1,571,000 | 1,721,804 | 150,804 |
| Departmental revenues | 36,350 | 36,350 | 38,835 | 2,485 |
| Intergovernmental charges | 897,368 | 897,368 | 885,191 | (12,177) |
| Use of money and property | 141,823 | 141,823 | 142,405 | 582 |
| Fines and forfeitures | 52,000 | 52,000 | 36,092 | (15,908) |
| Licenses and permits | 50,000 | 50,000 | 54,133 | 4,133 |
| Sale of property and compensation for loss | 29,900 | 29,900 | 20,707 | (9,193) |
| Miscellaneous local sources | 49,400 | 45,500 | 398,702 | 353,202 |
| Interfund revenues | 238,687 | 238,687 | 256,995 | 18,308 |
| State aid | 307,380 | 307,380 | 404,456 | 97,076 |
| Total revenues | 6,077,674 | 6,074,366 | 6,670,157 | 595,791 |
| EXPENDITURES | | | | |
| General government support | 881,172 | 894,198 | 794,553 | 99,645 |
| Public safety | 1,555,490 | 1,564,452 | 1,504,524 | 59,928 |
| Transportation | 888,825 | 889,972 | 848,077 | 41,895 |
| Economic opportunity and assistance | 39,700 | 39,700 | 26,490 | 13,210 |
| Culture and recreation | 88,422 | 96,451 | 86,984 | 9,467 |
| Home and community services | 637,077 | 633,457 | 628,139 | 5,318 |
| Employee benefits | 1,452,996 | 1,453,496 | 1,384,602 | 68,894 |
| Debt service | | | | |
| Principal | 360,000 | 180,000 | 180,000 | - |
| Interest | 72,117 | 28,081 | 25,081 | 3,000 |
| Total expenditures | 5,975,799 | 5,779,807 | 5,478,450 | 301,357 |
| Excess of revenues over expenditures | 101,875 | 294,559 | 1,191,707 | 897,148 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Appropriated fund balance | 356,711 | 423,478 | - | (423,478) |
| Appropriated interfund transfer out | (458,586) | (718,037) | (1,384,992) | (666,955) |
| Total other financing sources (uses) | (101,875) | (294,559) | (1,384,992) | (1,090,433) |
| Deficiency of revenues and other financing sources over expenditures and other financing uses | \$ - | \$ - | (193,285) | \$ (193,285) |
| FUND BALANCE, beginning of year | | | 3,791,481 | |
| FUND BALANCE, end of year | | | \$ 3,598,196 | |

See Independent Auditor's Report.

Village of Fairport, New York

Required Supplementary Information Schedule of Funding Progress - Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)- Simplified Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|---|
| 6/1/2016 | \$ - | \$ 3,843,245 | \$ 3,843,245 | 0.00% | \$ 5,480,058 | 70.13% |
| 6/1/2015 | - | 2,568,029 | 2,568,029 | 0.00% | 5,202,047 | 49.37% |
| 6/1/2014 | - | 2,548,422 | 2,548,422 | 0.00% | 5,050,531 | 50.46% |
| 6/1/2013 | - | 2,501,919 | 2,501,919 | 0.00% | 4,451,345 | 56.21% |

Village of Fairport, New York

Required Supplementary Information Schedule of Proportionate Share of Net Pension Liability

| | 2017 | 2016 |
|--|--------------|--------------|
| New York State and Local Employees' Retirement System | | |
| Village's proportion of the net pension liability | 0.0148313% | 0.0148324% |
| Village's proportionate share of the net pension liability | \$ 1,393,583 | \$ 2,380,646 |
| Village's covered-employee payroll | \$ 4,470,700 | \$ 4,014,917 |
| Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 31.2% | 59.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 94.7% | 90.7% |
| New York State and Local Police and Fire Retirement System | | |
| Village's proportion of the net pension liability | 0.0249858% | 0.0293650% |
| Village's proportionate share of the net pension liability | \$ 517,868 | \$ 869,434 |
| Village's covered-employee payroll | \$ 1,009,358 | \$ 791,780 |
| Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 51.3% | 109.8% |
| Plan fiduciary net position as a percentage of the total pension liability | 93.5% | 90.20% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Village of Fairport, New York

Required Supplementary Information Schedule of Pension Contributions

| | 2017 | 2016 |
|---|------------|------------|
| New York State and Local Employees' Retirement System | | |
| Contractually required contribution | \$ 617,750 | \$ 714,150 |
| Contributions in relation to the contractually required contribution | 617,750 | 714,150 |
| Contribution deficiency (excess) | - | - |
| Village's covered-employee payroll | 4,470,700 | 4,014,917 |
| Contribution as a percentage of covered-employee payroll | 14% | 18% |
| New York State and Local Police and Fire Retirement System | | |
| Contractually required contribution | \$ 180,984 | \$ 190,584 |
| Contributions in relation to the contractually required contribution | 180,984 | 190,584 |
| Contribution deficiency (excess) | - | - |
| Village's covered-employee payroll | 1,009,358 | 791,780 |
| Contribution as a percentage of covered-employee payroll | 18% | 24% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



**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***

Mayor and Board of Trustees
Village of Fairport, New York
Fairport, New York

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, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fairport, New York (Village), as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated January 26, 2018.

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 opinions 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BST & CO. CPAs, LLP

Albany, New York
January 26, 2018

