

CITY OF MIDDLETOWN, NEW YORK  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2010  
WITH INDEPENDENT AUDITORS' REPORT



CITY OF MIDDLETOWN, NEW YORK

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
of the City of Middletown, New York:

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Middletown, New York as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Middletown, New York as of December 31, 2010, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Water and Sewer funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Funding Progress – Other Post Employment Benefits 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011 on our consideration of the City of Middletown, New York's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown, New York's basic financial statements as a whole. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and is also not a required part of the financial statements. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**

June 14, 2011

**City of Middletown, New York  
Management's Discussion and Analysis (MD&A)  
December 31, 2010**

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**Introduction**

The following discussion and analysis of the City of Middletown, New York's financial statements provides an overview of the financial activities of the City of Middletown, New York for the fiscal year ended December 31, 2010. Please read it in conjunction with the basic financial statements and the accompanying notes to those statements that follow this section to enhance understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2010 are as follows:

- On the government-wide financial statements, the assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$34,390,157. The main reason that the City's assets exceeded its liabilities by such a large amount is because of the City's infrastructure assets, which were appraised and recorded in 2006 in accordance with the requirement of GASB Statement No. 34. Of this amount, all funds have been restricted as to use and are not available to meet the government's ongoing obligations. After the investment in capital assets, net of related debt and amounts restricted for specific purposes, the City's unrestricted net assets is a deficit of \$2,645,460. The main reason for this deficit is due to the recent capitalization of various capital outlay, which was paid out of the capital fund on the Fund Financial Statements, but is recorded as an asset on the Statement of Net Assets within the Government-Wide Financial Statements. Included in the deficit of the unrestricted was a liability recorded for other post employment benefits obligations which was in accordance with the requirement of GASB Statements No. 45. The recording of these amounts in the Statement of Net Assets results in the unrestricted net assets deficit as mentioned above.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance deficit of \$5,657,874, a decrease of \$13,992,824. Exclusive of the Capital Projects Fund, the combined ending fund balances was \$12,918,872. Of this latter amount, the unreserved and undesignated fund balance was \$9,514,555. This amount is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,101,035, or 13% of total General Fund expenditures and other financing uses.

- The City retired \$2,301,143 of general obligation debt during the year ended December 31, 2010.
- The City issued \$3,990,769 and retired \$65,000 of bond anticipation notes to finance capital projects during the year ended December 31, 2010.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information as listed in the table of contents.

### *Government-wide Financial Statements*

The *government-wide financial statements* are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information reflecting how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government support, public safety, transportation, economic opportunity and development, culture and recreation, home and community services and interest.

The government-wide financial statements can be found on the pages immediately following this section as the first two pages of the basic financial statements.

### *Fund Financial Statements*

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Development Fund, Water Fund, Sewer Fund and the Capital Projects Fund, which are considered to be major funds. Data for the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual budget for its General Fund, Community Development Fund, Water Fund, Sewer Fund, Golden Area Fund and Debt Service Fund. A budgetary comparison statement has been provided for the General Fund and Community Development Fund, Water Fund and Sewer Fund within the basic financial statements to demonstrate compliance with the respective budgets.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The City maintains only one type of fiduciary fund that is known as an agency fund. Resources are held in this fund by the City purely in a custodial capacity. The activity in this fund is limited to the receipt, temporary investment, and remittance of resources to the appropriate individual, organization or government.

The financial statements for the governmental and fiduciary funds can be found in the basic financial statements section of this report.

### *Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are located following the basic financial statements section of this report.

### Other Information

Additional statements and schedules can be found immediately following the notes to the financial statements. These include the combining statements for the non-major governmental funds and schedules of budget to actual comparisons.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$34,390,157 at the close of the current fiscal year.

	2010	2009
Current Assets	\$ 32,675,679	\$ 44,243,921
Capital Assets, net	89,284,100	75,585,126
<b>Total Assets</b>	<b>121,959,779</b>	<b>119,829,047</b>
Current Liabilities	33,755,576	32,118,377
Long-term Liabilities	53,814,046	51,204,087
<b>Total Liabilities</b>	<b>87,569,622</b>	<b>83,322,464</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	28,445,069	16,916,531
Restricted	8,590,548	7,548,220
Unrestricted	(2,645,460)	12,041,832
<b>Total Net Assets</b>	<b>\$ 34,390,157</b>	<b>\$ 36,506,583</b>

One of the components of net assets is the investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens and consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted net assets of \$8,590,548 are as follows:

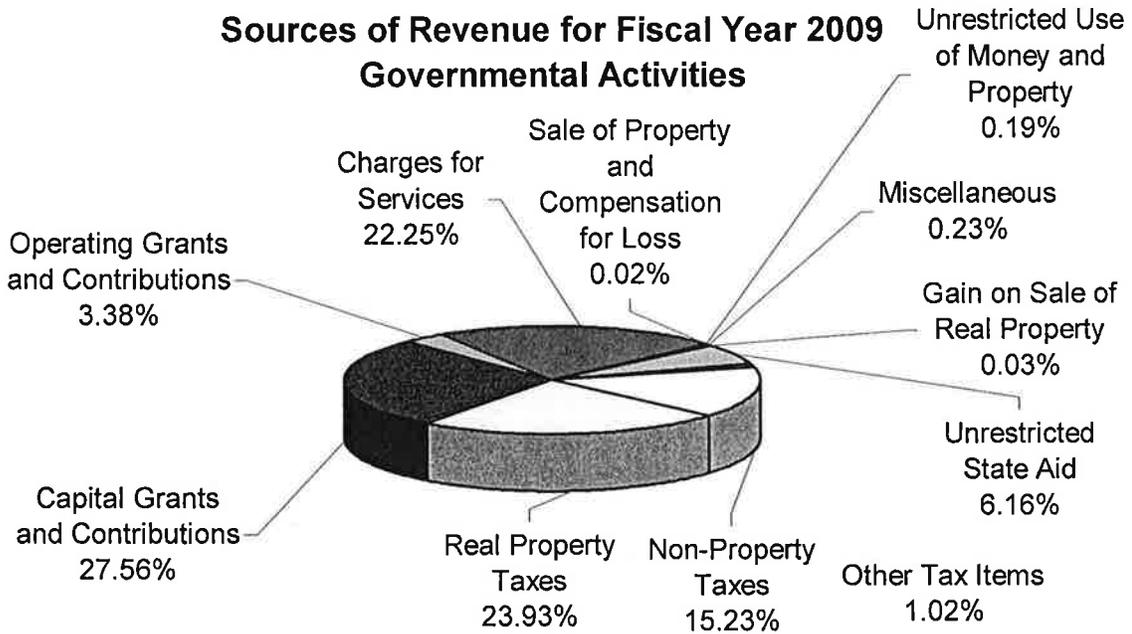
	<u>2010</u>	<u>2009</u>
Capital Projects	\$ 638,477	\$ 654,416
Debt Service	2,530,121	2,335,791
Tax Stabilization	8,305	8,160
Unemployment Benefits	85,547	84,700
Future Capital Projects	190,000	190,000
Special Revenue	5,100,143	4,238,636
Special Purposes	37,955	36,517
	<u>\$ 8,590,548</u>	<u>\$ 7,548,220</u>

There is currently a deficit of unrestricted net assets in the amount of \$2,645,460.

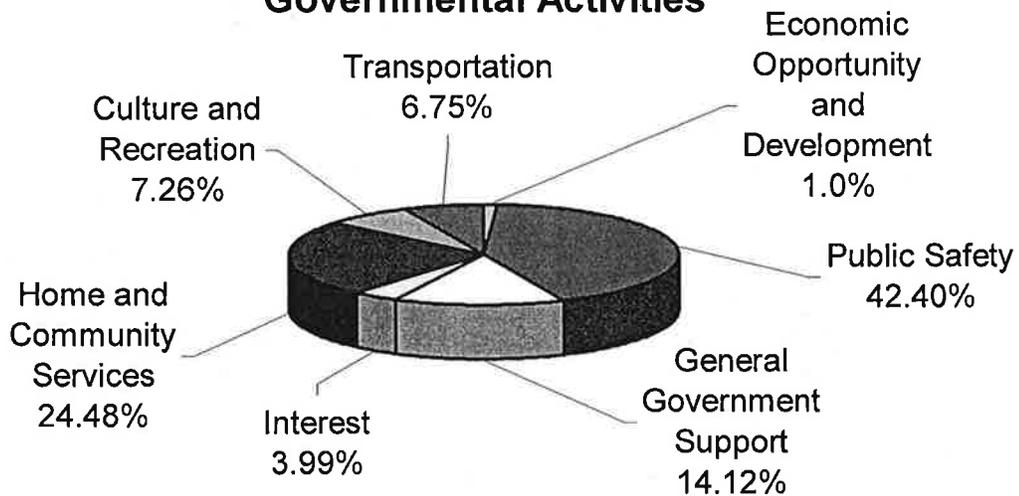
## Changes in Net Assets

	2010	2009
Program Revenues:		
Charges for Services	\$ 14,214,180	\$ 12,146,197
Operating Grants and Contributions	937,145	1,845,792
Capital Grants and Contributions	862,141	15,040,023
General Revenues:		
Real Property Taxes	15,528,348	13,060,639
Other Tax Items	603,316	554,851
Non-Property Taxes	8,640,649	8,313,581
Unrestricted Use of Money and Property	20,418	11,868
Sale of Property and Compensation for Loss	390,361	103,060
Unrestricted State Aid	3,089,436	3,362,193
Miscellaneous	264,156	125,941
Gain on Sale of Real Property	65,599	17,498
Total Revenues	44,615,749	54,581,643
Program Expenses:		
General Government Support	6,571,253	5,829,732
Public Safety	19,225,384	17,496,224
Transportation	3,688,025	2,783,543
Economic Opportunity and Development	396,324	414,518
Culture and Recreation	2,930,280	2,995,458
Home and Community Services	12,375,139	10,100,725
Interest	1,545,770	1,646,365
Total Expenses	46,732,175	41,266,565
Change in Net Assets	(2,116,426)	13,315,078
Net Assets - Beginning	36,506,583	23,191,505
Net Assets - Ending	\$ 34,390,157	\$ 36,506,583

**Sources of Revenue for Fiscal Year 2009  
Governmental Activities**



**Expenses for Fiscal Year 2009  
Governmental Activities**



Governmental activities decreased the City's net assets by \$2,116,426. This decrease is directly attributable to the other post employment benefit obligations, which increased \$3,200,000 in the current year.

For the fiscal year ended December 31, 2010, revenues from governmental activities totaled \$43.2 million. Tax revenues (\$24.2 million), comprised of real property taxes, other tax items and non-property taxes, represent the largest revenue sources (56%). Governmental activities' expenses of the City for the year ended December 31, 2010 totaled \$58.2 million. The largest components of these expenses are in the areas of public safety (19%) and home and community services (30%).

The major changes are as follows:

#### Revenues

- Real property taxes increased \$1,273,884. This is due to a higher tax levy, but is offset by a reduction of approximately \$691,360 for taxes that may become uncollectible..
- Non-Property Taxes increased by a net of \$327,068, as a result of increase in sales tax revenues received by the County.

#### Expenses:

- Public Safety increased by \$1,729,160. This was the result of increased police salaries and overtime and required retirement system contributions.
- Home and Community Services increased by \$2,274,414 as a result of a increase in the expenditures with the Community Development Fund.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### *Governmental Funds*

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance deficit of \$5.6 million, a decrease of approximately \$14,000,000 from the prior year. Exclusive of the Capital Projects Fund, the combined fund balances total \$12.9 million. Of this amount, \$9.5 million constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) a reserve for prepaid expenditures (\$552,389), 2) a reserve for debt service (\$2,532,121), 3) a reserve for tax stabilization (\$8,305), 4) a reserve for unemployment benefits (\$85,547), 5) a reserve for future capital projects (\$190,000) and 6) a reserve for trusts (\$37,955).

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$4.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13% of total General Fund expenditures and other financing uses, while total fund balance represents 15% of that same amount.

When the fiscal 2010 General Fund budget was adopted, it was anticipated that \$- would be used from fund balance. During the year, budget revisions increased the anticipated use to \$671,100 of fund balance. However, actual results of operations resulted in an increase in fund balance of \$306,184, a positive variance of approximately \$977,000.

These results were derived from expenditure savings offset by lower than anticipated revenues. Overall, General Fund expenditures and other financing uses were \$31 million, which was \$1 million, or 3%, less than the final budget. The major areas where spending was less than budget was general government support (\$220,030) and home and community (\$188,994). The General Fund revenues were \$31.2 million, which was \$6.218, or 1%, less than the final budget. The largest revenue category that reflected a negative variance as compared to the budget was the net between real property taxes (767,363) and non-property taxes \$305,365 as a result of a lower amount received for sales tax.

### **General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was \$925,584 for 2010. This change was primarily attributable to an increase in the appropriation for the corporate counsel and the judgment and claims in the general government support.

### **Capital Assets**

The City's investment in capital assets for its governmental activities as of December 31, 2010, amounted to \$89.2 million (net of accumulated depreciation) as compared to \$75.6 million in 2009. This investment in capital assets includes land, buildings and improvements, improvements other than buildings and machinery and equipment.

**Capital Assets  
(Net of Accumulated Depreciation)**

	2010	2009
Land	\$ 3,668,067	\$ 3,668,067
Buildings and Improvements	59,941,099	23,415,467
Improvements Other than Buildings	2,020,168	2,226,194
Infrastructure	16,372,383	16,846,740
Machinery and Equipment	4,754,221	5,108,158
Construction-in-Progress	2,528,162	24,320,500
<b>Total</b>	<b>\$ 89,284,100</b>	<b>\$ 75,585,126</b>

Additional information on the City's capital assets can be found in Note 3 of this report.

**Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$39,079,999. As required by New York State Law, all bonds issued by the City are general obligation bonds, backed by the full faith and credit of the City.

During the 2010 fiscal year, the City retired \$2,301,143 in principal on outstanding obligations.

Additional information on the City's long-term debt can be found in Note 3 of this report.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Janet Gallo, Treasurer, City of Middletown, 16 James Street, Middletown, New York 10940.

CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	Primary Government	Component Unit Industrial
	Governmental Activities	Development Agency
<b>ASSETS</b>		
Cash and equivalents	\$ 12,128,624	\$ 54,401
Restricted investments	6,036,370	-
Receivables:		
Taxes, net	2,567,456	-
Mortgages	98,645	-
Accounts	567,899	28,501
Loans, net	3,474,051	-
Sewer rents, net	1,967,504	-
Water rents, net	2,268,363	-
State and Federal aid	657,650	-
Due from other governments	2,302,734	-
Prepaid expenses	552,389	46,933
Deferred charges	53,994	-
Capital assets (net of accumulated depreciation):		
Land	3,668,067	-
Buildings and improvements	59,941,099	386
Improvements other than buildings	2,020,168	-
Infrastructure	16,372,383	-
Machinery and equipment	4,754,221	-
Construction-in-progress	2,528,162	-
Total Assets	<u>121,959,779</u>	<u>130,221</u>
<b>LIABILITIES</b>		
Accounts payable	1,959,521	28,501
Accrued liabilities	842,030	-
Retainage percentages	1,544,909	-
Due to State and Federal governments	49,879	-
Due to County for tax levy	289,177	-
Due to school district	1,719,286	46,933
Unearned revenues	262,539	-
Loans payable	15,896,487	-
Bond anticipation notes payable	10,695,769	-
Accrued interest payable	495,979	-
Non-current liabilities:		
Due within one year:		
Bonds payable	2,170,000	-
Loans payable	134,000	-
Compensated absences	265,000	-
Claims payable	695,000	-
Due in more than one year:		
Bonds payable	36,887,118	-
Loans payable	2,019,000	-
Compensated absences	2,386,979	-
Claims payable	2,386,949	-
Other post employment benefit obligations payable	6,870,000	-
Total Liabilities	<u>87,569,622</u>	<u>75,434</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	28,445,069	-
Restricted for:		
Capital projects	638,477	-
Debt service	2,530,121	-
Tax stabilization	8,305	-
Unemployment benefits	85,547	-
Future capital projects	190,000	-
Special Revenue Funds:		
Community Development	1,952,840	-
Water	1,701,307	-
Sewer	1,445,996	-
Special Purposes	37,955	-
Unrestricted	(2,645,460)	54,787
Total Net Assets	<u>\$ 34,390,157</u>	<u>\$ 54,787</u>

The notes to the financial statements are an integral part of this statement. 13

CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government -				
Governmental activities:				
General government support	\$ 6,571,253	\$ 1,609,713	\$ 44,259	\$ -
Public safety	19,225,384	295,069	350,497	-
Transportation	3,688,025	-	-	667,810
Economic opportunity and development	396,324	57,501	-	-
Culture and recreation	2,930,280	434,382	37,152	-
Home and community services	12,375,139	11,817,515	505,237	-
Interest	1,545,770	-	-	194,331
Total Governmental Activities	<u>\$ 46,732,175</u>	<u>\$ 14,214,180</u>	<u>\$ 937,145</u>	<u>\$ 862,141</u>
Component unit -				
Industrial Development Agency	<u>\$ 26,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
 Real property taxes  
 Other tax items:  
   Payments in lieu of taxes  
   Interest and penalties - Taxes  
 Non-property taxes:  
   Non-property tax distribution from County  
   Franchise fees - Cable TV  
   Utilities gross receipts taxes  
 Unrestricted use of money and property  
 Sale of property and compensation for loss  
 Unrestricted State aid  
 Insurance recoveries  
 Miscellaneous  
 Gain on Sale of Real Property  
  
 Total General Revenues  
  
 Change in Net Assets  
  
 Net Assets - Beginning  
 Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

<b>Net (Expense) Revenue and Changes in Net Assets</b>	
<u>Primary Government</u>	<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Industrial Development Agency</u>
\$ (4,917,281)	\$ -
(18,579,818)	-
(3,020,215)	-
(338,823)	-
(2,458,746)	-
(52,387)	-
(1,351,439)	-
<u>(30,718,709)</u>	<u>-</u>
-	(26,241)
15,528,348	-
323,900	-
279,416	-
7,819,413	-
374,698	-
446,538	-
20,418	349
91,135	-
3,089,436	-
299,226	-
264,156	-
65,599	-
<u>28,602,283</u>	<u>(52,133)</u>
(2,116,426)	(52,133)
<u>36,506,583</u>	<u>106,920</u>
<u>\$ 34,390,157</u>	<u>\$ 54,787</u>

## CITY OF MIDDLETOWN, NEW YORK

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	General	Community Development	Water	Sewer
<b>ASSETS</b>				
Cash and Equivalents	\$ 3,685,614	\$ 915,798	\$ 525,829	\$ 592,255
Restricted Investments	-	-	-	-
Taxes Receivable, net	2,567,456	-	-	-
Other Receivables:				
Mortgages	98,645	-	-	-
Accounts	550,356	5,300	11,458	-
Loans, net	-	3,474,051	-	-
Sewer rents, net	-	-	-	1,967,504
Water rents, net	-	-	2,268,363	-
State and Federal aid	118,113	68,420	-	-
Due from other governments	2,261,200	-	-	-
Due from other funds	1,141,505	3,318	954,104	537,344
	<u>4,169,819</u>	<u>3,551,089</u>	<u>3,233,925</u>	<u>2,504,848</u>
Prepaid Expenditures	507,704	-	24,667	20,018
Total Assets	<u>\$ 10,930,593</u>	<u>\$ 4,466,887</u>	<u>\$ 3,784,421</u>	<u>\$ 3,117,121</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
Liabilities:				
Accounts payable	\$ 660,806	\$ -	\$ 53,369	\$ 120,683
Accrued liabilities	743,827	7,491	53,906	34,270
Retained percentages	-	-	-	-
Due to State and Federal governments	15,134	34,745	-	-
Due to County for tax levy	289,177	-	-	-
Due to school district	1,719,286	-	-	-
Due to other funds	1,213,861	141,721	975,999	860,238
Deferred revenues	98,645	3,474,051	-	-
Deferred tax revenues	1,447,266	-	-	-
Loans payable	-	-	-	-
Bond anticipation notes payable	-	-	-	-
Total Liabilities	<u>6,188,002</u>	<u>3,658,008</u>	<u>1,083,274</u>	<u>1,015,191</u>
Fund Balances (Deficits):				
Reserved for prepaid expenditures	507,704	-	24,667	20,018
Reserved for debt service	-	-	-	-
Reserved for tax stabilization	8,305	-	-	-
Reserved for unemployment benefits	85,547	-	-	-
Reserved for future capital projects	40,000	-	150,000	-
Reserved for trusts	-	-	-	-
Unreserved, reported in:				
General Fund	4,101,035	-	-	-
Special Revenue Funds	-	808,879	2,526,480	2,081,912
Capital Projects Fund	-	-	-	-
Total Fund Balances (Deficits)	<u>4,742,591</u>	<u>808,879</u>	<u>2,701,147</u>	<u>2,101,930</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 10,930,593</u>	<u>\$ 4,466,887</u>	<u>\$ 3,784,421</u>	<u>\$ 3,117,121</u>

The notes to the financial statements are an integral part of this statement.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 3,856,202	\$ 2,552,926	\$ 12,128,624
6,036,370	-	6,036,370
-	-	2,567,456
-	-	98,645
785	-	567,899
-	-	3,474,051
-	-	1,967,504
-	-	2,268,363
471,117	-	657,650
36,980	4,554	2,302,734
1,536,408	1,833,139	6,005,818
2,045,290	1,837,693	17,342,664
-	-	552,389
\$ 11,937,862	\$ 4,390,619	\$ 38,627,503
\$ 1,124,661	\$ 2	\$ 1,959,521
-	2,536	842,030
1,544,909	-	1,544,909
-	-	49,879
-	-	289,177
-	-	1,719,286
990,243	1,823,756	6,005,818
262,539	-	3,835,235
-	-	1,447,266
15,896,487	-	15,896,487
10,695,769	-	10,695,769
30,514,608	1,826,294	44,285,377
-	-	552,389
-	2,530,121	2,530,121
-	-	8,305
-	-	85,547
-	-	190,000
-	37,955	37,955
-	-	4,101,035
-	(3,751)	5,413,520
(18,576,746)	-	(18,576,746)
(18,576,746)	2,564,325	(5,657,874)
\$ 11,937,862	\$ 4,390,619	\$ 38,627,503

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CITY OF MIDDLETOWN, NEW YORK

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT - WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

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Fund Balances - Total Governmental Funds \$ (5,657,874)

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 89,284,100

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Real property taxes	1,447,266
Departmental income	3,474,051
Mortgage receivable	<u>98,645</u>

5,019,962

Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.

Deferred charges	<u>53,994</u>
------------------	---------------

Long-term liabilities that are not due and payable in the current period are not reported in the funds.

Accrued interest payable	(495,979)
Bonds payable	(39,057,118)
Loans payable	(2,153,000)
Compensated absences	(2,651,979)
Claims payable	(3,081,949)
Other post employment benefit obligations payable	<u>(6,870,000)</u>

(54,310,025)

Net Assets of Governmental Activities \$ 34,390,157

The notes to the financial statements are an integral part of this statement.

## CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2010

	General	Community Development	Water	Sewer
<b>REVENUES</b>				
Real property taxes	\$ 14,939,882	\$ -	\$ -	\$ -
Other tax items	603,316	-	-	-
Non-property taxes	8,640,649	-	-	-
Departmental income	1,004,772	734,962	5,570,047	4,932,212
Intergovernmental charges	416,180	-	-	-
Use of money and property	267,604	1,327	3,017	2,106
Licenses and permits	487,098	-	12,140	685
Fines and forfeitures	291,099	-	-	-
Sale of property and compensation for loss	91,135	-	1,495	-
State aid	3,340,112	-	-	-
Federal aid	147,372	492,774	-	-
Miscellaneous	264,156	-	4,963	1,050
<b>Total Revenues</b>	<b>30,493,375</b>	<b>1,229,063</b>	<b>5,591,662</b>	<b>4,936,053</b>
<b>EXPENDITURES</b>				
Current:				
General government support	4,521,327	-	269,049	146,445
Public safety	10,823,629	-	-	-
Transportation	1,915,403	-	-	-
Economic opportunity and development	257,517	-	-	-
Culture and recreation	1,722,637	-	-	-
Home and community services	1,906,050	1,336,850	1,800,238	1,976,677
Employee benefits	8,676,438	-	741,791	579,902
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	23,785	-	6,447	103,463
<b>Total Expenditures</b>	<b>29,846,786</b>	<b>1,336,850</b>	<b>2,817,525</b>	<b>2,806,487</b>
Excess (Deficiency) of Revenues Over Expenditures	646,589	(107,787)	2,774,137	2,129,566
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	299,226	-	-	-
Sale of real property	21,011	-	-	-
Loans issued	-	750,000	-	-
Transfers in	506,611	-	-	-
Transfers out	(1,167,253)	(267,978)	(2,130,983)	(957,401)
<b>Total Other Financing Sources (Uses)</b>	<b>(340,405)</b>	<b>482,022</b>	<b>(2,130,983)</b>	<b>(957,401)</b>
<b>Net Change in Fund Balances</b>	<b>306,184</b>	<b>374,235</b>	<b>643,154</b>	<b>1,172,165</b>
Fund Balances (Deficits) - Beginning of Year	4,436,407	434,644	2,057,993	929,765
Fund Balances (Deficits) - End of Year	<u>\$ 4,742,591</u>	<u>\$ 808,879</u>	<u>\$ 2,701,147</u>	<u>\$ 2,101,930</u>

The notes to the financial statements are an integral part of this statement.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 14,939,882
-	-	603,316
-	-	8,640,649
-	68,053	12,310,046
-	-	416,180
-	11,785	285,839
-	-	499,923
-	-	291,099
-	-	92,630
646,985	-	3,987,097
-	20,857	661,003
20,825	193,062	484,056
<u>667,810</u>	<u>293,757</u>	<u>43,211,720</u>
-	-	4,936,821
-	9,068	10,832,697
-	-	1,915,403
-	-	257,517
-	117,232	1,839,869
-	-	7,019,815
-	-	9,998,131
17,388,828	-	17,388,828
-	2,495,143	2,495,143
-	1,456,862	1,590,557
<u>17,388,828</u>	<u>4,078,305</u>	<u>58,274,781</u>
<u>(16,721,018)</u>	<u>(3,784,548)</u>	<u>(15,063,061)</u>
-	-	299,226
-	-	21,011
-	-	750,000
65,000	3,952,004	4,523,615
-	-	(4,523,615)
<u>65,000</u>	<u>3,952,004</u>	<u>1,070,237</u>
(16,656,018)	167,456	(13,992,824)
<u>(1,920,728)</u>	<u>2,396,869</u>	<u>8,334,950</u>
<u>\$ (18,576,746)</u>	<u>\$ 2,564,325</u>	<u>\$ (5,657,874)</u>

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CITY OF MIDDLETOWN, NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2010

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Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances - Total Governmental Funds \$ (13,992,824)

Governmental funds report capital outlays 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 capital outlays exceeded depreciation expense in the current period. This amount may be less than the total capital outlay since capital outlay includes amounts under the capitalization threshold that were not capitalized.

Capital outlay expenditures	16,560,155
Depreciation expense	<u>(2,861,181)</u>
	<u>13,698,974</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Real property taxes	588,466
Departmental income	114,093
Mortgages	<u>44,588</u>
	<u>747,147</u>

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal paid on bonds	2,301,142
Loans issued	(750,000)
Principal paid on loans	194,000
Amortization of issuance costs, loss on refunding and premium	<u>(11,250)</u>
	<u>1,733,892</u>

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.

Accrued interest	48,138
Compensated absences	(469,224)
Claims	(682,529)
Other post employment benefit obligations	<u>(3,200,000)</u>
	<u>(4,303,615)</u>

Change in Net Assets of Governmental Activities \$ (2,116,426)

The notes to the financial statements are an integral part of this statement.

## CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL, COMMUNITY DEVELOPMENT, WATER AND SEWER FUNDS  
 YEAR ENDED DECEMBER 31, 2010

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Real property taxes	\$ 15,707,245	\$ 15,707,245	\$ 14,939,882	\$ (767,363)
Other tax items	581,940	581,940	603,316	21,376
Non-property taxes	8,335,284	8,335,284	8,640,649	305,365
Departmental income	1,025,764	1,025,764	1,004,772	(20,992)
Intergovernmental charges	419,466	431,451	416,180	(15,271)
Use of money and property	366,452	366,452	267,604	(98,848)
Licenses and permits	157,750	157,750	487,098	329,348
Fines and forfeitures	253,500	253,500	291,099	37,599
Sale of property and compensation for loss	5,500	5,500	91,135	85,635
State aid	3,580,333	3,635,069	3,340,112	(294,957)
Federal aid	127,025	127,025	147,372	20,347
Miscellaneous	57,000	127,850	264,156	136,306
<b>Total Revenues</b>	<b>30,617,259</b>	<b>30,754,830</b>	<b>30,493,375</b>	<b>(261,455)</b>
<b>EXPENDITURES</b>				
Current:				
General government support	3,728,574	4,741,357	4,521,327	220,030
Public safety	10,899,456	10,995,313	10,823,629	171,684
Transportation	1,860,844	2,209,911	1,915,403	294,508
Economic opportunity and development	361,922	361,922	257,517	104,405
Culture and recreation	1,741,293	1,757,028	1,722,637	34,391
Home and community services	2,167,986	2,095,044	1,906,050	188,994
Employee benefits	9,175,021	8,699,713	8,676,438	23,275
Debt service - Interest	35,000	35,000	23,785	11,215
<b>Total Expenditures</b>	<b>29,970,096</b>	<b>30,895,288</b>	<b>29,846,786</b>	<b>1,048,502</b>
Excess (Deficiency) of Revenues Over Expenditures	647,163	(140,458)	646,589	787,047
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	65,000	65,000	299,226	234,226
Sale of real property	-	-	21,011	21,011
Transfers in	519,698	571,611	506,611	(65,000)
Transfers out	(1,166,861)	(1,167,253)	(1,167,253)	-
<b>Total Other Financing Uses</b>	<b>(582,163)</b>	<b>(530,642)</b>	<b>(340,405)</b>	<b>190,237</b>
Net Change in Fund Balances	65,000	(671,100)	306,184	977,284
Fund Balances - Beginning of Year	(65,000)	671,100	4,436,407	3,765,307
Fund Balances - End of Year	\$ -	\$ -	\$ 4,742,591	\$ 4,742,591

The notes to the financial statements are an integral part of this statement.

Water Fund				Sewer Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,181,367	5,181,367	5,570,047	388,680	4,595,403	4,595,403	4,932,212	336,809
3,365	3,365	3,017	(348)	2,500	2,500	2,106	(394)
10,000	10,000	12,140	2,140	500	500	685	185
-	-	-	-	-	-	-	-
-	-	1,495	1,495	-	-	-	-
-	-	-	-	-	-	-	-
2,500	2,500	4,963	2,463	1,000	1,000	1,050	50
5,197,232	5,197,232	5,591,662	394,430	4,599,403	4,599,403	4,936,053	336,650
310,018	309,354	269,049	40,305	224,107	247,000	146,445	100,555
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,826,271	1,902,794	1,800,238	102,556	2,166,603	2,169,922	1,976,677	193,245
910,758	910,699	741,791	168,908	798,160	798,160	579,902	218,258
50,000	50,000	6,447	43,553	35,000	168,463	103,463	65,000
3,097,047	3,172,847	2,817,525	355,322	3,223,870	3,383,545	2,806,487	577,058
2,100,185	2,024,385	2,774,137	749,752	1,375,533	1,215,858	2,129,566	913,708
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2,100,185)	(2,152,098)	(2,130,983)	21,115	(1,375,533)	(1,242,070)	(957,401)	284,669
(2,100,185)	(2,152,098)	(2,130,983)	21,115	(1,375,533)	(1,242,070)	(957,401)	284,669
-	(127,713)	643,154	770,867	-	(26,212)	1,172,165	1,198,377
-	127,713	2,057,993	1,930,280	-	26,212	929,765	903,553
\$ -	\$ -	\$ 2,701,147	\$ 2,701,147	\$ -	\$ -	\$ 2,101,930	\$ 2,101,930

CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
DECEMBER 31, 2010

---

	<u>Agency</u>
<b>ASSETS</b>	
Cash - Demand deposits	\$ 658,333
Accounts Receivable	<u>31,520</u>
Total Assets	<u>\$ 689,853</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 506,468
Deposits	<u>183,385</u>
Total Liabilities	<u>\$ 689,853</u>

The notes to the financial statements are an integral part of this statement.

**Note 1 - Summary of Significant Accounting Policies**

The City of Middletown, New York ("City") was established in 1888 and operates in accordance with its Charter and the various other applicable laws of the State of New York. The City operates under a Mayor/Council form of government. The City Council is the legislative body responsible for overall operation. The Mayor serves as the chief executive officer and the City Treasurer serves as the chief financial officer. The City provides the following services to its residents: public safety, transportation, economic opportunity and development, culture and recreation, home and community services and general and administrative support.

The accounting policies of the City conform to generally accepted accounting principles for local governmental units and the Uniform System of Accounts as prescribed by the State of New York. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the City's more significant accounting policies:

**A. Financial Reporting Entity**

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

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the City's reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. Based upon the application of these criteria, the following component unit is included in the City's reporting entity because of its operational or financial relationship with the City.

The Middletown Industrial Development Agency ("Agency") is a public benefit corporation created by State legislation to promote the economic welfare, recreation opportunities and prosperity of the City's inhabitants. Members of the Agency are appointed by the City Council. Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The City is not liable for Agency bonds or notes. The governing board of the Agency serves at the pleasure of the City Council and, therefore, the primary government is considered to be able to impose its will on the Agency. Since the Agency does not provide services entirely or almost entirely to the City, the financial statements of the Agency have been reflected as a discretely presented component unit. Complete financial statements may be obtained from the Middletown Industrial Development Agency, Economic and Community Development Office, 16 James Street, Middletown, NY 10940

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The Statement of Net Assets presents the financial position of the City at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The City does not allocate indirect expenses to functions in the Statement of Activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Fund Financial Statements**

The accounts of the City 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, which comprise its assets, liabilities, fund balances, revenues and expenditures. 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 City 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. Fiduciary funds are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is 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 City's resources are reflected in the fund financial statements in two broad fund categories, in accordance with generally accepted accounting principles as follows:

**Fund Categories**

- a. 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 are the City's major governmental funds.

General Fund - The General Fund constitutes the primary operating fund of the City in that it includes all revenues and expenditures not required by law to be accounted for in other funds.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Special Revenue Funds - Special revenue funds are established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain defined purposes. The major special revenue funds of the City are as follows:

Community Development Fund - The Community Development Fund is used to account for projects financed by entitlements from the United States Department of Housing and Urban Development.

Water Fund - The Water Fund is used to record the water utility operations of the City, which renders services on a user charge basis to the general public.

Sewer Fund - The Sewer Fund is used to record the sewer utility operations of the City, which renders services on a user charge basis to the general public.

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

The City also reports the following non-major governmental funds.

Special Revenue Funds:

Golden Area Fund - The Golden Area Fund is provided to account for the operations of the City's senior citizen transportation program, which is supported in-part by grants-in-aid.

Special Purpose Fund - The Special Purpose Fund is used to account for assets held by the City in accordance with the terms of a trust agreement.

Debt Service Fund - The Debt Service Fund is provided to account for the accumulation of resources to be used for the redemption of principal and interest on long-term debt.

- b. Fiduciary Funds (Not Included in Governmental-Wide Statements) - The Fiduciary Funds are used to account for assets held by the City in an agency capacity on behalf of others. The Agency Fund is used to account for employee payroll tax withholdings and various other deposits that are payable to other jurisdictions or individuals.

**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 reports.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus and utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within sixty days of the fiscal year end. A ninety day availability period is used for revenue recognition for all other governmental fund revenues. Property taxes associated with the current fiscal period as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, certain claims and other post employment benefit obligation are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**Component Unit**

The component unit is presented on the basis of accounting that most accurately reflects its activities. The component unit is accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The component unit applies all applicable Financial Accounting Standards Boards pronouncements issued after November 30, 1989 in accounting and reporting for its operations.

**E. Assets, Liabilities and Net Assets or Fund Balances**

**Deposits, Investments and Risk Disclosure**

**Cash and Equivalents** - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of less than three months.

The City's investment policies are governed by State statutes. The City has adopted its own written investment policy, which provides for the deposit of funds in FDIC insured

**Note 1 - Summary of Significant Accounting Policies (Continued)**

commercial banks or trust companies located within the State. The City is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The City has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the City's name. The City's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2010.

The City was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate or credit risk.

**Restricted Investments** - Restricted investments of the Capital Projects Fund consist of bond proceeds held by a State agency. These funds are to be used for the City's Capital Projects Fund water filter plant construction project.

**Taxes Receivable** - Real property taxes attach as an enforceable lien on real property and are levied on January 1st. The City collects County and City taxes, which are due in two installments, with the first half due on February 10th and payable without penalty until March 10th and the second half due on June 10th and payable without penalty until July 10th. School district taxes for the period July 1st through June 30th are collected by the City School District through November 30th at which time the City assumes the responsibility for the collection of the taxes. The City also has the responsibility for conducting tax lien sales and in-rem foreclosure proceedings.

The City functions in a fiduciary relationship with the County of Orange and in a fiduciary and guarantor relationship with the City School District with respect to the collection and payment of real property taxes levied by such jurisdictions. County taxes are included in the City's levy and are payable in accordance with the City's tax calendar disclosed above. School district taxes are levied on July 1st and are due on September 1st, payable without penalty until September 30th. The City remits to the respective jurisdiction all taxes as collected. With respect to school district taxes, the City is required to satisfy the warrant in November of the next succeeding year. Thus, the City retains a fiduciary relationship with the City School District for fourteen months, at which time the City must satisfy the warrant. The collection of school district taxes is deemed a financing transaction until the warrant is satisfied.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Other Receivables** - Other receivables include amounts due from other governments and individuals for services provided by the City. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

**Due From/To Other Funds** - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of December 31, 2010, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

**Loans Receivable** - Loans receivable consist of residential and commercial loans made by the City through the Community Development Program. The loans have various interest rates and maturities.

**Inventories** - There are no inventory values presented in the balance sheets of the respective funds of the City. Purchases of inventoriable items at various locations are recorded as expenditures at the time of purchase and year-end balances at these locations are not material.

**Prepaid Expenses/Expenditures** - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Prepaid expenses/expenditures consist of costs which have been satisfied prior to the end of the fiscal year, but represent items which have been provided for in the subsequent year's budget and/or will benefit such periods. Reported amounts in governmental funds are equally offset by a reservation of fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

**Deferred Charges** - Deferred charges in government-wide financial statements represent the unamortized portion of the costs of issuance of bonds. These costs are being amortized over the term of the respective bond issue.

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Land and construction-in-progress are not depreciated. Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives.

<u>Class</u>	<u>Life in Years</u>
Buildings and improvements	10-40
Improvements other than buildings	10-15
Infrastructure	50
Machinery and equipment	8-15

The costs associated with the acquisition or construction of capital assets are shown as capital outlay expenditures on the governmental fund financial statements. Capital assets are not shown on the governmental fund balance sheet.

**Unearned/Deferred Revenues** - Unearned/deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In government-wide financial statements, unearned revenue consists of amounts received in advance and revenue from grants received before the eligibility requirements have been met.

Deferred revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City has reported deferred revenues of \$98,645 for mortgages and \$1,447,266 for real property taxes in the General Fund. The Community Development Fund reflects deferred revenues \$3,474,051 for loans receivable. The City has also reported deferred revenues of \$262,539 for grants received in advance in the Capital Projects Fund. Such amounts have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

**Long-Term Liabilities** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the bond premium or discount, where applicable. Bond issuance costs are amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as Capital Projects Fund or Debt Service Fund expenditures.

**Compensated Absences** - The various collective bargaining agreements provide for the payment of accumulated vacation and sick leave upon separation from service. The liability for such accumulated leave is reflected in the government-wide Statement of Net Assets as current

**Note 1 - Summary of Significant Accounting Policies (Continued)**

and long-term liabilities. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement. The liability for compensated absences includes salary related payments, where applicable.

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets on the Statement of Net Assets include, invested in capital assets, net of related debt, restricted for capital projects, debt service, tax stabilization, unemployment benefits, future capital projects and special revenue funds. The balance is classified as unrestricted.

**Fund Balances - Reserves and Designations** - Portions of fund balance are segregated for future use and are therefore not available for future appropriation or expenditure. Amounts reserved for prepaid expenditures, debt service, tax stabilization, unemployment benefits, future capital projects and trusts represent portions of fund balance which are required to be segregated in accordance with State law or generally accepted accounting principles. Designations of unreserved fund balance in governmental funds indicate the utilization of these resources in the ensuing year's budget or tentative plans for future use.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**G. Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 14, 2011.

**Note 2 - Stewardship, Compliance and Accountability**

**A. Budgetary Data**

The City generally follows the procedures enumerated below in establishing the budgetary data reflected in the financial statements:

- a) Prior to September 15th, the head of each administrative unit shall submit to the budget officer an estimate of revenues and expenditures for such administrative unit for the ensuing year.
- b) The budget officer, upon completion of the review of the estimates, shall prepare a tentative budget and file such budget in the Office of the Board of Estimate on or before October 1st.

**Note 2 - Stewardship, Compliance and Accountability (Continued)**

- c) The Board of Estimate shall review the tentative budget and may make such changes, alterations and revisions as it shall consider advisable and which are consistent with law. Upon completion of such review, the tentative budget and any modifications as approved by the Board of Estimate shall become the preliminary budget.
- d) On or before December 31st, the Board of Estimate shall hold a public hearing on the preliminary budget.
- e) After the public hearing, the Board of Estimate may further change, alter and revise the preliminary budget subject to provisions of the law.
- f) The preliminary budget as submitted or amended shall be adopted by resolution not later than December 31st.
- g) Formal budgetary integration is employed during the year as a management control device for General, Water, Sewer, Golden Area and Debt Service funds.
- h) Budgets for General, Water, Sewer, Golden Area and Debt Service funds are legally adopted annually on a basis consistent with generally accepted accounting principles. The Capital Projects and Community Development funds are budgeted on a project basis. The City does not adopt an annual budget for the Special Purpose Fund.
- i) The Board of Estimate has established legal control of the budget at the function level of expenditures. Transfers between appropriation accounts, at the function level, require approval by the City Council. Any modification to appropriations resulting from an increase in revenue estimates or supplemental reserve appropriations also requires a majority vote by the City Council.
- j) Appropriations in General, Water, Sewer, Golden Area and Debt Service funds lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year, pursuant to the Uniform System of Accounts promulgated by the Office of the State Comptroller.

Budgeted amounts are as originally adopted, or as amended by the City Council.

**B. Property Tax Limitation**

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five year average full valuation of taxable real estate located within the City, exclusive of the amount raised for the payment of interest on and redemption of long-term debt. In accordance with this definition, the maximum amount of the levy for 2010 was \$35,290,346, inclusive of exclusions, which exceeded the actual levy by \$19,583,101.

**Note 2 - Stewardship, Compliance and Accountability (Continued)****C. Fund Deficits**

The Golden Area Fund reflects an undesignated deficit of \$3,751, respectively, at December 31, 2010. The City plans to address this deficit in the ensuing year.

The unreserved and undesignated deficit in the Capital Projects Fund of \$18,576,746 arises because of the application of generally accepted accounting principles to the financial reporting of such funds. The proceeds of bond anticipation notes issued to finance construction of capital projects are not recognized as an "other financing source". Liabilities for bond anticipation loans payable are accounted for in the Capital Projects Fund. Bond anticipation notes are recognized as revenue only to the extent that they are redeemed. The deficit will be reduced and eliminated as bond anticipation notes are redeemed from interfund transfers from other governmental funds or converted to permanent financing.

**Note 3 - Detailed Notes on All Funds****A. Restricted Investments**

The restricted investments of \$6,036,370 in the Capital Projects Fund consist of investments in U.S. Treasury Bills, the use of which is restricted to water plant reconstruction projects. These investments are held by a State agency and are not subject to risk categorization.

**B. Taxes Receivable**

Taxes receivable at December 31, 2010 consisted of the following:

City and County taxes - Current and overdue	\$ 1,519,793
School district taxes - Current and overdue	975,964
Tax sale certificates	1,641,993
Property acquired for taxes	<u>526,018</u>
	4,663,768
Less - Allowance for uncollectible taxes	<u>(2,096,312)</u>
	<u>\$ 2,567,456</u>

School district taxes are offset by liabilities to the school district, which will be paid when the warrants are required to be satisfied. Taxes receivable are also partially offset in the fund financial statements by deferred tax revenues of \$1,447,266, which represents the portion of the receivable which will not be collected within the first sixty days of the subsequent year.

**C. Mortgages Receivable**

The City has an outstanding mortgage receivable of \$30,145 at December 31, 2010. The mortgage is for the sale of real property and is payable monthly for 15 years, with interest at 7.75% per annum through December 2013.

The City has an outstanding mortgage receivable of \$68,500 at December 31, 2010. The mortgage is for the sale of real property and is payable monthly for 5 years, with interest at 5% per annum through December 2014.

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010**Note 3 - Detailed Notes on All Funds (Continued)****D. Due From/To Other Funds**

The balances reflected as due from/to other funds at December 31, 2010 were as follows:

Fund	Due From	Due To
General	\$ 1,141,505	\$ 1,213,861
Community Development	3,318	141,721
Water	954,104	975,999
Sewer	537,344	860,238
Capital Projects	1,536,408	990,243
Non-Major Governmental	1,833,139	1,823,756
	\$ 6,005,818	\$ 6,005,818

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system and 3) payments between funds are made.

**E. Capital Assets**

Changes in the City's capital assets are as follows:

Class	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land	\$ 3,668,067	\$ -	\$ -	\$ 3,668,067
Construction-in-progress	24,320,500	2,411,672	24,204,010	2,528,162
Total Capital Assets, not being depreciated	\$ 27,988,567	\$ 2,411,672	\$ 24,204,010	\$ 6,196,229
Capital Assets, being depreciated:				
Buildings and improvements	\$ 32,894,218	\$ 37,807,103	\$ -	\$ 70,701,321
Improvements other than buildings	4,476,985	-	-	4,476,985
Infrastructure	23,821,953	-	-	23,821,953
Machinery and equipment	25,509,211	545,390	233,314	25,821,287
Total Capital Assets, being depreciated	86,702,367	38,352,493	233,314	124,821,546

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010

**Note 3 - Detailed Notes on All Funds (Continued)**

Class	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Less Accumulated Depreciation for:				
Buildings and improvements	\$ 9,478,751	\$ 1,281,471	\$ -	\$ 10,760,222
Improvements other than buildings	2,250,791	206,026	-	2,456,817
Infrastructure	6,975,213	474,357	-	7,449,570
Machinery and equipment	20,401,053	899,327	233,314	21,067,066
<b>Total Accumulated Depreciation</b>	<b>39,105,808</b>	<b>2,861,181</b>	<b>233,314</b>	<b>41,733,675</b>
<b>Total Capital Assets, being depreciated, net</b>	<b>\$ 47,596,559</b>	<b>\$ 35,491,312</b>	<b>\$ -</b>	<b>\$ 83,087,871</b>
<b>Capital Assets, net</b>	<b>\$ 75,585,126</b>	<b>\$ 37,902,984</b>	<b>\$ 24,204,010</b>	<b>\$ 89,284,100</b>

Depreciation expense was charged to the City's functions and programs as follows:

Governmental Activities:		
General government support		\$ 41,005
Public safety		402,497
Transportation		293,215
Culture and recreation		126,988
Home and community services		1,997,476
<b>Total Depreciation Expense</b>		<b>\$ 2,861,181</b>

**Component Units**

Changes in the Agency's capital assets are as follows:

Class	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Capital Assets, not being depreciated - Land	\$ -	\$ -	\$ -	\$ -
Capital Assets, being depreciated:				
Buildings	\$ -	\$ -	\$ -	\$ -
Equipment	1,219	-	-	1,219
<b>Total Capital Assets, being depreciated</b>	<b>1,219</b>	<b>-</b>	<b>-</b>	<b>1,219</b>
Less Accumulated Depreciation for:				
Buildings	-	-	-	-
Equipment	589	244	-	833
<b>Total Accumulated Depreciation</b>	<b>589</b>	<b>244</b>	<b>-</b>	<b>833</b>
<b>Total Capital Assets, being depreciated, net</b>	<b>\$ 630</b>	<b>\$ (244)</b>	<b>\$ -</b>	<b>\$ 386</b>
<b>Capital Assets, net</b>	<b>\$ 630</b>	<b>\$ (244)</b>	<b>\$ -</b>	<b>\$ 386</b>

**Note 3 - Detailed Notes on All Funds (Continued)**

**F. Accrued Liabilities**

Accrued liabilities at December 31, 2010 were as follows:

	Fund					Total Governmental
	General	Community Development	Water	Sewer	Non-Major Governmental	
Payroll and Employee Benefits	\$ 743,827	\$ 7,491	\$ 53,906	\$ 34,270	\$ -	\$ 839,494
Other	-	-	-	-	2,536	2,536
	<u>\$ 743,827</u>	<u>\$ 7,491</u>	<u>\$ 53,906</u>	<u>\$ 34,270</u>	<u>\$ 2,536</u>	<u>\$ 842,030</u>

**G. Pension Plans**

The City 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") ("Systems"). The Systems provide retirement, disability and death benefits to plan members. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12224.

Funding Policy - The Systems are non-contributory, except for employees in tiers 3 and 4 that have less than ten years of service, who contribute 3% of their salary and employees in tier 5 who also contribute 3% of their salary without regards to their years of service. Contributions are certified by the State Comptroller and expressed as a percentage of members' salary. Contribution rates are actuarially determined and based upon membership tier and plan. Contributions consist of a life insurance portion and regular pension contributions. Contribution rates for the plans' year ended March 31, 2009 are as follows:

	Tier/Plan	Rate
ERS	1 75I	15.3%
	2 75I	14.0
	3 A14	11.3
	4 A15	11.3
	5 A15	9.1
PFRS	1 384D	21.9
	2 384D	16.8
	3 384D	16.5

**Note 3 - Detailed Notes on All Funds (Continued)**

Contributions made to the Systems for the current and two preceding years were as follows:

	<u>ERS</u>	<u>PFRS</u>
2010	\$ 701,479	\$ 1,250,849
2009	515,825	1,334,130
2008	526,095	1,260,195

The ERS and PFRS contributions were equal to 100% of the actuarially required contributions for each respective fiscal year.

The current ERS contribution for the City was charged to the funds identified below. The current PFRS contribution was charged to the General Fund.

<u>Fund</u>	<u>Amount</u>
General	\$ 513,114
Community Development	15,771
Water	96,568
Sewer	76,026
	<u>\$ 701,479</u>

The Agency does not pay wages and, accordingly, does not participate in a retirement system.

**H. Loans Payable**

The City entered into a loan agreement with the New York State Environmental Facilities Corporation in the amount of \$13,916,487 for the financing of the Drinking Water Facility Project. The loan is due, without interest, in October, 2011.

The City entered into a loan agreement with the New York State Environmental Facilities Corporation in the amount of \$1,980,000 for the financing of the Sterling Street Project. The loan is due, without interest, in October, 2011.

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2010

**Note 3 - Detailed Notes on All Funds (Continued)**

**I. Short-Term Capital Borrowings**

The schedule below details the changes in short-term capital borrowings.

Purpose	Year of Original Issue	Maturity Date	Interest Rate	Balance January 1, 2010	New Issues	Redemptions	Balance December 31, 2010
<b>Bond Anticipation Notes:</b>							
Sewage Treatment Plant Reconstruction	2002	04/08/11	1.50 %	\$ 2,670,000	\$ -	\$ 35,000	\$ 2,635,000
Sewage Treatment Plant Reconstruction	2008	04/08/11	1.50	3,000,000	-	30,000	2,970,000
Purchase of Fire Trucks	2009	04/08/11	1.50	1,100,000	-	-	1,100,000
Water Supply System Reconstruction	2010	02/24/11	1.00	-	1,800,000	-	1,800,000
Machinery and Equipment	2010	04/08/11	1.07	-	573,000	-	573,000
Improvements to Building	2010	04/08/11	1.07	-	270,000	-	270,000
Pole Barn	2010	04/08/11	1.07	-	100,000	-	100,000
Water Meters Purchase	2010	04/08/11	1.07	-	100,000	-	100,000
Water and Sewer Mains	2010	04/08/11	1.07	-	100,000	-	100,000
Sewers Replacements	2010	04/08/11	1.07	-	150,000	-	150,000
Municipal Pool Improvements	2010	04/08/11	1.07	-	100,000	-	100,000
Recreations	2010	04/08/11	1.07	-	310,000	-	310,000
Senior Citizens Bus Purchase	2010	04/08/11	1.07	-	30,495	-	30,495
Water Treatment Plant - Phase 1	2010	04/08/11	1.07	-	224,500	-	224,500
Mill Pond Water Main Replacements	2010	04/08/11	1.07	-	202,166	-	202,166
Garbage Truck	2010	04/08/11	1.07	-	30,608	-	30,608
				<u>\$ 6,770,000</u>	<u>\$ 3,990,769</u>	<u>\$ 65,000</u>	<u>\$ 10,695,769</u>

Liabilities for bond anticipation notes are generally accounted for in the Capital Projects Fund. Bond anticipation notes issued for judgments or settled claims are recorded in the fund paying the claim. Principal payments on bond anticipation notes must be made annually. State law requires that bond anticipation notes issued for capital purposes or judgments be converted to long-term obligations generally within five years after the original issue date. However, bond anticipation notes issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

Interest expenditures of \$23,785, \$6,447 and \$103,463 were recorded in the fund financial statements in the General, Water and Sewer Funds.

Interest expense of \$109,162 was recorded in the government-wide financial statements for governmental activities.

NOTES TO FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2010

**Note 3 - Detailed Notes on All Funds (Continued)****J. Long-Term Liabilities**

The following table summarizes changes in the City's long-term indebtedness for the year ended December 31, 2010:

	Balance January 1, 2010	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2010	Due Within One-Year
Bonds Payable	\$ 41,381,142	\$ -	\$ 2,301,143	\$ 39,079,999	\$ 2,170,000
Less: Deferred Amounts on Refunding	(26,230)	-	(3,349)	(22,881)	-
	41,354,912	-	2,297,794	39,057,118	2,170,000
Loans Payable	1,597,000	750,000	194,000	2,153,000	134,000
Other Non-current Liabilities:					
Compensated Absences	2,182,755	687,500	218,276	2,651,979	265,000
Claims Payable	2,399,420	1,237,842	555,313	3,081,949	695,000
Other post employment benefit obligation payable	3,670,000	4,770,000	1,570,000	6,870,000	-
Total Other Non-Current Liabilities	8,252,175	6,695,342	2,343,589	12,603,928	960,000
Total Long-Term Liabilities	\$ 51,204,087	\$ 7,445,342	\$ 4,835,383	\$ 53,814,046	\$ 3,264,000

Government fund liabilities for bonds and loans are liquidated by the Debt Service Fund, which is funded primarily by the General, Water and Sewer Funds. Each fund's liability for compensated absences, claims and other post employment benefit obligation is liquidated by the respective fund.

**Bonds Payable**

Bonds payable at December 31, 2010 are comprised of the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rates	Amount Outstanding at December 31, 2010
Various Purposes	1992	\$ 7,965,000	May, 2011	5.850 %	\$ 150,000
General, Water and Sewer Purposes	2001	7,905,000	August, 2021	3.500 - 4.750	5,245,000
Refunding	2002	4,700,000	March, 2012	6.150 - 6.600	555,000
Water Purposes	2004	3,397,093	May, 2023	2.025 - 4.475	2,365,000
Refunding	2005	5,530,000	October, 2017	3.490 - 4.870	3,545,000
Environmental Facilities Corporation	2006	3,671,027	April, 2036	3.671 - 4.731	3,320,000
Public Improvement	2007	5,210,000	July, 2028	4.375 - 5.000	4,704,999
Environmental Facilities Corporation	2008	20,161,142	April, 2038	4.270	19,195,000
					<u>\$ 39,079,999</u>

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010**Note 3 - Detailed Notes on All Funds (Continued)**

Interest expenditures of \$1,382,884 were recorded in the fund financial statements in the Debt Service Fund.

Interest expense of \$1,362,630 was recorded in the government-wide financial statements for governmental activities.

**Loans Payable**

The loans were advanced to the Community Development Fund under the Department of Housing and Urban Development's Section 108 Loan Guarantee Program. The loan proceeds were provided to local businesses within the City. The loans bear interest at rates ranging from 2.21% to 7.66%, depending upon maturity. Interest and principal are payable in quarterly installments. The loans mature through 2029.

Interest expenditures/expense of \$73,978 were recorded in the fund financial statements in the Debt Service Fund and government-wide financial statements for governmental activities.

**Payments to Maturity**

The annual requirements to amortize all bonded and loan debt outstanding as of December 31, 2010 including interest payments of \$20,396,717 are as follows:

Year Ending December 31,	Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 2,170,000	\$ 1,670,887	\$ 134,000	\$ 27,706	\$ 2,304,000	\$ 1,698,593
2012	2,085,000	1,584,122	89,000	23,478	2,174,000	1,607,600
2013	1,865,000	1,502,555	130,000	21,662	1,995,000	1,524,217
2014	1,930,000	1,426,170	135,000	19,163	2,065,000	1,445,333
2015	1,999,999	1,344,378	135,000	16,676	2,134,999	1,361,054
2016-2020	9,260,002	5,395,340	695,000	44,643	9,955,002	5,439,983
2021-2025	6,470,001	3,574,809	565,000	2,633	7,035,001	3,577,442
2026-2030	5,204,997	2,311,216	270,000	1,890	5,474,997	2,313,106
2031-2035	4,960,000	1,232,032	-	-	4,960,000	1,232,032
2036-2038	3,135,000	197,357	-	-	3,135,000	197,357
	<u>\$ 39,079,999</u>	<u>\$ 20,238,866</u>	<u>\$ 2,153,000</u>	<u>\$ 157,851</u>	<u>\$ 41,232,999</u>	<u>\$ 20,396,717</u>

The above general obligation bonds and notes are direct obligations of the City for which its full faith and credit are pledged and are payable from taxes levied on all taxable real property within the City.

**Prior Year Defeasance of Debt**

In a prior year, the City defeased general obligation serial bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not

**Note 3 - Detailed Notes on All Funds (Continued)**

included in the City's financial statements. At December 31, 2010, the bonds are considered defeased.

**Compensated Absences**

In accordance with various existing collective bargaining agreements, employees are entitled to accumulate vacation and sick leave. Civil service employees may accumulate up to 260 days of sick leave, firefighters may accumulate 87 days and police may accumulate an unlimited amount of leave. Upon separation of service, civil service employees and police with five or more years of service may receive payment for forty percent of unused sick leave, up to the maximum of 260 days for civil service employees and 200 days for police employees. Payment is based upon the prior two year's average salary. Firefighters are paid for all accumulated sick leave at 40% of salary. Civil service employees' personal time may also be accumulated and included with sick leave. Vacation time may be accumulated by civil service employees. Upon retirement, a civil service employee is compensated for unused vacation leave up to a maximum of 30 days. The value of all compensated absences has been reflected in the government-wide financial statements.

**Claims Payable**

The government-wide financial statements reflect the liability for self-insured workers' compensation. These liabilities are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and other factors that are considered to be appropriate modifiers of past experience.

An analysis of the unpaid claims liability is as follows:

	<u>2010</u>	<u>2009</u>
Balance - Beginning of Year	\$ 2,399,420	\$ 3,302,362
Provision for Claims and Claims Adjustment Expenses	1,237,842	-
Claims and Claims Adjustment Expenses Paid	<u>(555,313)</u>	<u>(902,942)</u>
Balance - End of Year	<u>\$ 3,081,949</u>	<u>\$ 2,399,420</u>
Due Within One Year	<u>\$ 695,000</u>	<u>\$ 552,000</u>

**Note 3 - Detailed Notes on All Funds (Continued)**

**Other Post Employment Benefit Obligations Payable**

In addition to providing pension benefits, the City provides certain health care benefits for retired employees through a single employer defined benefit plan. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the City may vary according to length of service. The cost of providing post employment health care benefits is shared between the City and the retired employee. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as expenditure as claims are paid in the fund financial statements. The City has recognized revenues and expenditures of \$30,890 for Medicare Part D payments made directly to its health insurance carrier on behalf of its retirees.

The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution, ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The City is required to accrue on the government-wide financial statements the amounts necessary to finance the Plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis. The assumed rates of increase in postretirement benefits are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Medical</u> <u>Rates</u>	<u>Dental &amp;</u> <u>Vision Rates</u>
2010	8.50 %	5.00 %
2011	8.00	5.00
2012	7.50	5.00
2013	7.00	5.00
2014	6.50	5.00
2015	6.00	5.00

NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2010**Note 3 - Detailed Notes on All Funds (Continued)**

The amortization basis is the level percentage of projected payroll method with a closed amortization approach with 27 years remaining in the amortization period. The actuarial assumptions included a 4.5% investment rate of return, a 3% inflation rate and a 3% annual payroll growth rate. The City currently has no assets set aside for the purpose of paying postemployment benefits. The actuarial cost method utilized was the projected unit credit method.

The number of participants as of December 31, 2010 was as follows:

	<u>Governmental Activities</u>
Active Employees	199
Retired Employees	174
	<u>373</u>

## Amortization Component:

Actuarial Accrued Liability as of January 1, 2010	\$ 54,060,000
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 54,060,000</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (active plan members)	<u>\$ 16,850,000</u>
UAAL as a Percentage of Covered Payroll	<u>320.83%</u>
Annual Required Contribution	\$ 4,600,000
Interest on Net OPEB Obligation	<u>170,000</u>
Annual OPEB Cost	4,770,000
Contributions Made	<u>(1,570,000)</u>
Increase in Net OPEB Obligation	3,200,000
Net OPEB Obligation - Beginning of Year	<u>3,670,000</u>
Net OPEB Obligation - End of Year	<u>\$ 6,870,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current and preceding year is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 4,770,000	32.90 %	\$ 6,870,000
2009	3,180,000	42.77	3,670,000
2008	3,020,000	38.74	1,850,000

**Note 3 - Detailed Notes on All Funds (Continued)**

The City first implemented the provisions of GASB Statement No. 45 for the fiscal year ended December 31, 2008.

**K. Revenues and Expenditures****Interfund Transfers**

Interfund transfers are defined as the flow of assets, such as cash or goods and services, without the equivalent flow of assets in return. The interfund transfers reflected below have been reflected as transfers:

Transfers Out	Transfers In			Total
	General Fund	Capital Projects Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,167,253	\$ 1,167,253
Community Development Fund	-	-	267,978	267,978
Water Fund	279,262	-	1,851,721	2,130,983
Sewer Fund	227,349	65,000	665,052	957,401
	<u>\$ 506,611</u>	<u>\$ 65,000</u>	<u>\$ 3,952,004</u>	<u>\$ 4,523,615</u>

Transfers are used to 1) move amounts from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due 2) to move amounts earmarked in the operating funds to fulfill commitments for Capital Projects and General funds expenditures.

**L. Net Assets**

The components of net assets are detailed below:

*Invested in Capital Assets, net of Related Debt* - the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

*Restricted for Capital Projects* - the component of net assets that reports the amounts restricted for capital projects, less unexpended bond proceeds and unrestricted interest earnings.

*Restricted for Debt Service* - the component of net assets that reports the difference between assets and liabilities with constraints placed on their use by Local Finance Law.

*Restricted for Tax Stabilization* - the component of net assets that has been established pursuant to General Municipal Law, which may be used to finance an unanticipated revenue loss, an unanticipated expenditure or a projected increase in excess of five percent in the amount of the real property tax levy.

**Note 3 - Detailed Notes on All Funds (Continued)**

*Restricted for Unemployment Benefits* - the component of net assets that has been established to set aside funds to be used for a specific purpose in accordance with Section 6-m of the General Municipal Law of the State of New York.

*Restricted for Future Capital Projects* - the component of net assets that reports the amounts restricted for future capital projects.

*Restricted for Special Revenue Funds* - the component of net assets that represents funds restricted for specific purposes under New York State law or by external parties and/or statutes.

*Unrestricted* - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**M. Fund Balances**

Certain elements of reserved fund balance are described above. Those additional elements which are not reflected in the statement of net assets but are reported in the governmental funds balance sheet are described below. The unreserved components of fund balance are also detailed below:

**Reserved**

The Reserve for Prepaid Expenditures has been established to account for payments made in advance. This reserve indicates that these funds are not "available" for appropriation or expenditure even though they are a component of current assets.

The Reserve for Trusts has been established to set aside funds in accordance with the terms of the specific trust funds.

**Unreserved - Designated**

The Designation for Theatre Purposes represents a segregation of fund balance for future expenditures relating to the Paramount Theatre.

**Note 4 - Summary Disclosure of Significant Contingencies and Commitments**

**A. Litigation**

The City, in common with other municipalities, receives numerous notices of claims for money damages arising generally from false arrest, malicious prosecution, false imprisonment or personal injury. Of the claims currently pending, none are expected to have a material effect on the financial position of the City, if adversely settled.

The City is also a defendant in various claims by taxpayers for redetermination of assessed valuation. The settlement of such claims could result in the payment of refunds by the City. However, the amount of the possible refunds cannot be determined at the present time. Any payments resulting from adverse decisions will be funded in the year the payment is made.

**Note 4 - Summary Disclosure of Significant Contingencies and Commitments (Continued)**

**B. Risk Management**

The City maintains various conventional liability insurance policies to provide against potential losses. The general liability policy provides coverage of \$1 million per occurrence and \$3 million in the aggregate. The police professional liability and the public officials liability policies each provide coverage of \$1 million per occurrence. The umbrella policy provides coverage of \$6 million per occurrence and \$12 million in the aggregate. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City purchases conventional health insurance and workers' compensation coverage. The City is self-insured for unemployment benefits and incurred but not reported claims are not material.

The City participated in the Orange County Self Insurance Plan for Workers' Compensation. This Plan operates under an agreement dated January 1, 1980. The purposes of the Plan are to provide for the efficient and economical evaluation, processing, administration, defense and payment of claims against plan members for workers' compensation payments. Effective December 31, 2007, the City terminated its membership in the Plan and has purchased conventional workers' compensation insurance. The City is responsible for its portion of the outstanding claims under the Plan.

**C. Contingencies**

The City participates in various Federal grant programs, principal of which is the Community Development Block Grant Program. These programs are subject to program compliance audits pursuant to the Single Audit Act. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City anticipates such amounts, if any, to be immaterial.

During 2008, 2009 and 2010 the City sold \$1,121,266, \$1,543,035 and \$526,474 of tax liens, respectively, to an outside purchaser. The City is obligated to repurchase unredeemed liens at the end of three years from the date of sale. Such repurchase includes the full amount paid for the liens plus interest at 12% from the sale date and any fees paid by the purchaser. The purchaser has established a reserve account of 20% of the interest charged on the liens redeemed on its behalf. This reserve will be used to fund the repurchase by the City of any unredeemed liens. The City will be obligated to pay any excess of the costs of redemption over the reserve. No liability or reserve has been established by the City to repurchase these liens.

CITY OF MIDDLETOWN, NEW YORK

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS  
 OTHER POST EMPLOYMENT BENEFITS  
 LAST THREE FISCAL YEARS

Valuation Date	Actuarial		Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
January 1, 2008	\$ -	\$ 42,560,000	\$ 42,560,000	- %	\$ 17,660,000	241.00 %
January 1, 2009	-	44,670,000	44,670,000	-	18,620,000	239.90
January 1, 2010	-	54,060,000	54,060,000	-	16,850,000	320.83

## CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2010 AND 2009

	2010	2009
<u>ASSETS</u>		
Cash:		
Demand deposits	\$ 3,684,764	\$ 2,084,261
Petty cash	850	850
	<u>3,685,614</u>	<u>2,085,111</u>
Taxes Receivable:		
City and County taxes	1,519,793	1,460,298
School district taxes	975,964	983,120
Tax sale certificates	1,641,993	906,522
Property acquired for taxes	526,018	523,539
	<u>4,663,768</u>	<u>3,873,479</u>
Allowance for uncollectible taxes	<u>(2,096,312)</u>	<u>(1,993,418)</u>
	<u>2,567,456</u>	<u>1,880,061</u>
Other Receivables:		
Mortgages	98,645	38,739
Accounts	550,356	446,959
State and Federal aid	118,113	369,025
Due from other governments	2,261,200	2,398,409
Due from other funds	1,141,505	1,801,778
	<u>4,169,819</u>	<u>5,054,910</u>
Prepaid Expenditures	<u>507,704</u>	<u>484,832</u>
Total Assets	<u>\$ 10,930,593</u>	<u>\$ 9,504,914</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 660,806	\$ 1,013,025
Accrued liabilities	743,827	330,551
Due to State and Federal governments	15,134	14,164
Due to County for tax levy	289,177	315,564
Due to school district	1,719,286	2,046,154
Due to other funds	1,213,861	433,693
Deferred revenues	98,645	56,556
Deferred tax revenues	1,447,266	858,800
Total Liabilities	<u>6,188,002</u>	<u>5,068,507</u>
Fund Balance:		
Reserved for prepaid expenditures	507,704	484,832
Reserved for tax stabilization	8,305	8,160
Reserved for unemployment benefits	85,547	84,700
Reserved for future capital projects	40,000	40,000
Unreserved:		
Designated for theater purposes	5,654	23,100
Undesignated	4,095,381	3,795,615
Total Fund Balance	<u>4,742,591</u>	<u>4,436,407</u>
Total Liabilities and Fund Balance	<u>\$ 10,930,593</u>	<u>\$ 9,504,914</u>

## CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND  
 COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues:</b>				
Real property taxes	\$ 15,707,245	\$ 15,707,245	\$ 14,939,882	\$ (767,363)
Other tax items	581,940	581,940	603,316	21,376
Non-property taxes	8,335,284	8,335,284	8,640,649	305,365
Departmental income	1,025,764	1,025,764	1,004,772	(20,992)
Intergovernmental charges	419,466	431,451	416,180	(15,271)
Use of money and property	366,452	366,452	267,604	(98,848)
Licenses and permits	157,750	157,750	487,098	329,348
Fines and forfeitures	253,500	253,500	291,099	37,599
Sale of property and compensation for loss	5,500	5,500	91,135	85,635
State aid	3,580,333	3,635,069	3,340,112	(294,957)
Federal aid	127,025	127,025	147,372	20,347
Miscellaneous	57,000	127,850	264,156	136,306
<b>Total Revenues</b>	<b>30,617,259</b>	<b>30,754,830</b>	<b>30,493,375</b>	<b>(261,455)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government support	3,728,574	4,741,357	4,521,327	220,030
Public safety	10,899,456	10,995,313	10,823,629	171,684
Transportation	1,860,844	2,209,911	1,915,403	294,508
Economic opportunity and development	361,922	361,922	257,517	104,405
Culture and recreation	1,741,293	1,757,028	1,722,637	34,391
Home and community services	2,167,986	2,095,044	1,906,050	188,994
Employee benefits	9,175,021	8,699,713	8,676,438	23,275
Debt service - Interest	35,000	35,000	23,785	11,215
<b>Total Expenditures</b>	<b>29,970,096</b>	<b>30,895,288</b>	<b>29,846,786</b>	<b>1,048,502</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>647,163</b>	<b>(140,458)</b>	<b>646,589</b>	<b>787,047</b>
<b>Other Financing Sources (Uses):</b>				
Insurance recoveries	65,000	65,000	299,226	234,226
Sale of real property	-	-	21,011	21,011
Transfers in	519,698	571,611	506,611	(65,000)
Transfers out	(1,166,861)	(1,167,253)	(1,167,253)	-
<b>Total Other Financing Uses</b>	<b>(582,163)</b>	<b>(530,642)</b>	<b>(340,405)</b>	<b>190,237</b>
<b>Net Change in Fund Balance</b>	<b>65,000</b>	<b>(671,100)</b>	<b>306,184</b>	<b>977,284</b>
<b>Fund Balance - Beginning of Year</b>	<b>(65,000)</b>	<b>671,100</b>	<b>4,436,407</b>	<b>3,765,307</b>
<b>Fund Balance - End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,742,591</b>	<b>\$ 4,742,591</b>

2009

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 13,768,790	\$ 13,768,790	\$ 13,665,998	\$ (102,792)
398,206	398,206	554,851	156,645
8,748,294	8,748,294	8,313,581	(434,713)
1,314,215	1,161,606	938,368	(223,238)
382,984	382,984	705,586	322,602
367,608	367,608	244,377	(123,231)
212,750	212,750	194,359	(18,391)
228,500	228,500	269,584	41,084
35,000	35,000	7,060	(27,940)
3,760,532	3,812,900	3,469,398	(343,502)
58,190	250,877	170,113	(80,764)
117,500	219,247	215,970	(3,277)
<u>29,392,569</u>	<u>29,586,762</u>	<u>28,749,245</u>	<u>(837,517)</u>
3,816,701	3,923,731	3,641,539	282,192
11,116,111	11,297,395	11,106,849	190,546
1,737,863	1,972,376	1,846,980	125,396
354,862	354,862	316,498	38,364
1,763,364	1,968,296	1,963,871	4,425
2,237,589	2,196,620	1,798,057	398,563
8,262,865	8,232,760	7,874,672	358,088
-	-	-	-
<u>29,289,355</u>	<u>29,946,040</u>	<u>28,548,466</u>	<u>1,397,574</u>
103,214	(359,278)	200,779	560,057
30,000	30,000	96,000	66,000
50,000	50,000	17,498	(32,502)
1,026,294	1,026,294	1,026,294	-
(1,179,508)	(1,191,328)	(1,191,328)	-
<u>(73,214)</u>	<u>(85,034)</u>	<u>(51,536)</u>	<u>33,498</u>
30,000	(444,312)	149,243	593,555
<u>(30,000)</u>	<u>444,312</u>	<u>4,287,164</u>	<u>3,842,852</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,436,407</u>	<u>\$ 4,436,407</u>

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES COMPARED TO BUDGET

YEAR ENDED DECEMBER 31, 2010

(With Comparative Actuals for 2009)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2009 Actual
REAL PROPERTY TAXES	\$ 15,707,245	\$ 15,707,245	\$ 14,939,882	\$ (767,363)	\$ 13,665,998
OTHER TAX ITEMS					
Payments in lieu of taxes	346,940	346,940	323,900	(23,040)	313,939
Interest and penalties - Taxes	235,000	235,000	279,416	44,416	240,912
NON-PROPERTY TAXES	581,940	581,940	603,316	21,376	554,851
Non-property tax distribution from County					
Franchise fees - Cable TV	7,555,629	7,555,629	7,819,413	263,784	7,496,775
Utilities gross receipts taxes	350,000	350,000	374,698	24,698	358,096
	429,655	429,655	446,538	16,883	458,710
DEPARTMENTAL INCOME	8,335,284	8,335,284	8,640,649	305,365	8,313,581
Treasurer	90,000	90,000	97,055	7,055	94,883
City Clerk fees	4,000	4,000	4,470	470	4,218
Tax sale advertising	85,000	85,000	33,906	(51,094)	42,286
Police Department fees	5,000	5,000	3,615	(1,385)	6,897
Fire Department fees	7,500	7,500	355	(7,145)	7,400
Vital statistics	50,000	50,000	57,501	7,501	52,107
Public works service fee	85,000	85,000	98,123	13,123	78,808
Building department fees	125,000	125,000	208,013	83,013	163,010
Parks and recreation fees	29,000	29,000	17,895	(11,105)	25,055
Pool fees	10,000	10,000	11,733	1,733	11,221
Tennis fees	750	750	475	(275)	816
Day camp fees	85,000	85,000	88,004	3,004	87,054
Special recreation program fees	125,364	125,364	29,173	(96,191)	24,068
Zoning board fees	2,500	2,500	2,400	(100)	2,300
Planning Board fees	34,500	34,500	16,208	(18,292)	19,466
Tax collection fees	45,000	45,000	116,797	71,797	54,639
Paramount Theatre	203,500	203,500	163,125	(40,375)	220,996
Other departmental fees	38,650	38,650	55,924	17,274	43,144
	1,025,764	1,025,764	1,004,772	(20,992)	938,368

INTERGOVERNMENTAL CHARGES

Charges for services to other governments

419,466	431,451	416,180	(15,271)	705,586
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USE OF MONEY AND PROPERTY

Earnings on investments  
Rentals of real property  
Commissions

113,000	113,000	21,410	(91,590)	12,673
253,352	253,352	245,930	(7,422)	231,523
100	100	264	164	181
366,452	366,452	267,604	(98,848)	244,377

LICENSES AND PERMITS

Business and occupational licenses  
Bingo licenses  
Dog licenses  
Other licenses  
Building permits  
Other permits

45,000	45,000	165,745	120,745	47,219
3,500	3,500	2,913	(587)	3,292
4,750	4,750	5,327	577	4,935
3,500	3,500	5,813	2,313	4,773
95,000	95,000	302,880	207,880	127,726
6,000	6,000	4,420	(1,580)	6,414
157,750	157,750	487,098	329,348	194,359

FINES AND FORFEITURES

Fines and forfeited bail  
Dog pound fees

250,000	250,000	286,949	36,949	265,184
3,500	3,500	4,150	650	4,400
253,500	253,500	291,099	37,599	269,584

SALE OF PROPERTY AND COMPENSATION FOR LOSS

Sale of equipment  
Sale of scrap  
Sale of timber

-	-	125	125	-
5,500	5,500	193	(5,307)	7,060
-	-	90,817	90,817	-
5,500	5,500	91,135	85,635	7,060

STATE AID

Per capita  
Mortgage tax  
STAR program  
Youth programs  
Police - DWI  
Police - Crime  
Court facilities aid  
Police child safety  
Fire bonacic grant  
Buckle up NY  
Shared services  
Impact grant  
Other

2,938,692	2,938,692	2,761,047	(177,645)	2,976,406
433,750	433,750	328,389	(105,361)	385,787
3,000	3,000	-	(3,000)	-
26,166	26,166	5,869	(20,297)	17,067
-	-	5,180	5,180	7,156
-	50,000	49,928	(72)	-
35,000	35,000	38,865	3,865	34,116
-	1,829	-	(1,829)	1,909
-	-	-	-	20,000
-	-	4,800	4,800	2,845
-	-	-	-	24,112
143,725	143,725	143,127	(598)	-
-	2,907	2,907	-	-
3,580,333	3,635,069	3,340,112	(294,957)	3,469,398

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CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES COMPARED TO BUDGET (Continued)

YEAR ENDED DECEMBER 31, 2010  
(With Comparative Actuals for 2009)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2009 Actual
FEDERAL AID					
Police block grant	\$ -	\$ -	\$ 5,787	\$ 5,787	\$ 9,801
Drug Free Communities Support Grant	127,025	127,025	141,585	14,560	160,312
MISCELLANEOUS	127,025	127,025	147,372	20,347	170,113
Refund of prior year's expenditures	45,000	45,000	178,070	133,070	74,359
Urban renewal grant recycle	-	-	-	-	46,911
Orange County employment and training	-	-	-	-	43,118
Teen Violence	-	-	-	-	14,721
Other	12,000	82,850	86,086	3,236	36,861
TOTAL REVENUES	57,000	127,850	264,156	136,306	215,970
	30,617,259	30,754,830	30,493,375	(261,455)	28,749,245
OTHER FINANCING SOURCES					
Insurance recoveries	65,000	65,000	299,226	234,226	96,000
Sale of real property	-	-	21,011	21,011	17,498
Transfers in:					
Water Fund	227,349	279,262	279,262	-	225,647
Sewer Fund	227,349	227,349	227,349	-	225,647
Debt Service Fund	-	-	-	-	575,000
TOTAL OTHER FINANCING SOURCES	519,698	571,611	826,848	255,237	1,139,792
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 31,136,957	\$ 31,326,441	\$ 31,320,223	\$ (261,455)	\$ 29,889,037

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES COMPARED TO BUDGET

YEAR ENDED DECEMBER 31, 2010

(With Comparative Actuals for 2009)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2009 Actual
<b>GENERAL GOVERNMENT SUPPORT</b>					
Common Council	\$ 226,124	\$ 228,531	\$ 224,694	\$ 3,837	\$ 201,143
Board of Estimate and Apportionment	200	200	-	200	-
Mayor	133,028	133,029	113,403	19,626	88,875
Finance	394,299	409,299	400,792	8,507	432,457
Data processing	10,000	19,100	19,100	-	23,958
Assessor	282,649	282,649	275,425	7,224	263,573
Costs of tax sale	25,000	25,000	19,579	5,421	21,360
Corporation Counsel	250,636	584,576	580,821	3,755	237,368
Bond and note issuance costs	5,000	5,000	4,249	751	4,441
Civil service	91,740	91,736	88,486	3,250	84,821
Engineer	5,000	7,000	7,000	-	14,057
Elections	73,000	73,000	51,512	21,488	45,114
Board of Ethics	250	250	-	250	-
Public works administration	793,113	799,913	753,345	46,568	696,281
Maintenance department	615,585	628,985	590,594	38,391	580,884
Purchase of land	-	111,913	95,117	16,796	-
Liability insurance	575,350	765,259	750,037	15,222	604,634
Mayor's conference dues	7,500	7,500	7,186	314	6,809
Judgments and claims	15,000	30,000	30,000	-	118,346
Refunds and cancellations of taxes	75,000	396,659	396,629	30	113,974
Appraisal of property	-	1,800	1,800	-	-
Audit and accounting services	45,000	62,685	62,685	-	58,910
Metropolitan Commuter Transit Association tax	50,100	48,873	48,873	-	44,534
Contingent fund	55,000	28,400	-	28,400	-
	<u>3,728,574</u>	<u>4,741,357</u>	<u>4,521,327</u>	<u>220,030</u>	<u>3,641,539</u>
<b>PUBLIC SAFETY</b>					
Police Department	7,979,636	8,018,965	7,861,882	157,083	7,866,674
Fire Department	2,893,685	2,938,113	2,937,511	602	3,205,912
Public safety programs	26,135	38,235	24,236	13,999	34,263
	<u>10,899,456</u>	<u>10,995,313</u>	<u>10,823,629</u>	<u>171,684</u>	<u>11,106,849</u>

TRANSPORTATION

Street maintenance	1,154,219	1,317,686	1,087,184	230,502	947,255
Snow and ice control	381,625	457,625	408,189	49,436	550,556
Street lighting	325,000	434,600	420,030	14,570	349,169
	1,860,844	2,209,911	1,915,403	294,508	1,846,980

ECONOMIC OPPORTUNITY AND DEVELOPMENT

Economic development	40,361	40,361	34,767	5,594	43,689
Veterans' Service Agency	1,000	1,000	1,000	-	1,000
Senior citizen's programs	320,561	320,561	221,750	98,811	271,809
	361,922	361,922	257,517	104,405	316,498

CULTURE AND RECREATION

General recreation	577,323	587,098	579,673	7,425	616,857
Parks	325,511	331,761	329,169	2,592	384,753
Playgrounds	42,400	49,297	48,859	438	39,398
Swimming pools	67,400	70,180	64,205	5,975	117,523
Community center	11,250	11,250	11,136	114	11,379
Day camp	71,500	66,218	65,904	314	70,411
Tennis program	750	750	475	275	713
Special programs	390,659	425,974	423,860	2,114	443,084
Historical society	2,500	2,500	2,500	-	2,500
Celebration of Memorial Day	1,000	1,000	1,000	-	1,000
Paramount theatre	249,000	209,000	193,856	15,144	274,553
Band concerts	2,000	2,000	2,000	-	1,700
	1,741,293	1,757,028	1,722,637	34,391	1,963,871

HOME AND COMMUNITY SERVICES

Zoning Board of Appeals	5,200	5,200	3,655	1,545	3,552
Planning Board	5,200	5,200	4,216	984	4,258
Human Rights Commission	100	100	-	100	-
Academy Avenue School	96,700	101,700	98,175	3,525	92,731
Waste collection	2,013,929	1,880,454	1,765,136	115,318	1,679,463
Street cleaning	25,750	26,283	23,378	2,905	17,973
Municipal housing authority	100	100	-	100	80
Demolition of buildings	100	100	-	100	-
Nutrition for elderly	20,907	20,907	11,490	9,417	-
Senate initiative grant	-	55,000	-	55,000	-
	2,167,986	2,095,044	1,906,050	188,994	1,798,057

(Continued)

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND  
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES COMPARED TO BUDGET (Continued)  
 YEAR ENDED DECEMBER 31, 2010  
 (With Comparative Actuals for 2009)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2009 Actual
<b>EMPLOYEE BENEFITS</b>					
State retirement	\$ 703,533	\$ 522,942	\$ 513,114	\$ 9,828	\$ 351,913
Police and fire retirement	1,603,172	1,259,908	1,250,849	9,059	1,334,130
Social security	1,127,263	1,041,017	1,041,017	-	1,089,127
Workers' compensation benefits	1,644,139	1,548,875	1,548,875	-	1,520,038
Health, dental and optical insurance	3,902,561	4,079,827	4,079,827	-	3,334,723
Welfare fund	77,900	77,508	74,120	3,388	70,010
Unused sick leave	75,000	95,175	95,175	-	147,637
Unemployment benefits	20,453	60,347	60,347	-	13,739
Disability insurance	15,000	13,114	13,114	-	13,355
Meal allowance	6,000	1,000	-	1,000	-
	<u>9,175,021</u>	<u>8,699,713</u>	<u>8,676,438</u>	<u>23,275</u>	<u>7,874,672</u>
<b>DEBT SERVICE</b>					
Interest - Bond anticipation notes	35,000	35,000	23,785	11,215	-
	<u>29,970,096</u>	<u>30,895,288</u>	<u>29,846,786</u>	<u>1,048,502</u>	<u>28,548,466</u>
<b>OTHER FINANCING USES</b>					
Transfers out:					
Capital Projects Fund	-	-	-	-	11,575
Debt Service Fund	1,166,861	1,167,253	1,167,253	-	1,179,753
	<u>1,166,861</u>	<u>1,167,253</u>	<u>1,167,253</u>	<u>-</u>	<u>1,191,328</u>
<b>TOTAL OTHER FINANCING USES</b>					
	<u>\$ 31,136,957</u>	<u>\$ 32,062,541</u>	<u>\$ 31,014,039</u>	<u>\$ 1,048,502</u>	<u>\$ 29,739,794</u>

CITY OF MIDDLETOWN, NEW YORK

COMMUNITY DEVELOPMENT FUND  
 COMPARATIVE BALANCE SHEET  
 DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash - Demand deposits	\$ 915,798	\$ 431,597
Receivables:		
Accounts	5,300	4,417
Loans receivable, net of allowance for uncollectible amounts of \$691,782 in 2010 and \$648,587 in 2009	3,474,051	3,359,958
State and Federal aid	68,420	119,075
Due from other funds	3,318	3,318
	<u>3,551,089</u>	<u>3,486,768</u>
 Total Assets	 <u>\$ 4,466,887</u>	 <u>\$ 3,918,365</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accrued liabilities	\$ 7,491	\$ 8,750
Due to State and Federal governments	34,745	39,233
Due to other funds	141,721	75,780
Deferred revenues	3,474,051	3,359,958
	<u>3,658,008</u>	<u>3,483,721</u>
 Total Liabilities	 <u>3,658,008</u>	 <u>3,483,721</u>
 Fund Balance - Unreserved and undesignated	 <u>808,879</u>	 <u>434,644</u>
 Total Liabilities and Fund Balance	 <u>\$ 4,466,887</u>	 <u>\$ 3,918,365</u>

## CITY OF MIDDLETOWN, NEW YORK

## COMMUNITY DEVELOPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Departmental income	\$ 734,962	\$ 560,486
Use of money and property	1,327	2,829
Federal aid	<u>492,774</u>	<u>1,111,229</u>
Total Revenues	1,229,063	1,674,544
Expenditures - Current -		
Home and community services	<u>1,336,850</u>	<u>1,503,856</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(107,787)</u>	<u>170,688</u>
Other Financing Sources (Uses):		
Loans issued	750,000	-
Transfers out	<u>(267,978)</u>	<u>(276,739)</u>
Total Other Financing Uses	<u>482,022</u>	<u>(276,739)</u>
Net Change in Fund Balance	374,235	(106,051)
Fund Balance - Beginning of Year	<u>434,644</u>	<u>540,695</u>
Fund Balance - End of Year	<u>\$ 808,879</u>	<u>\$ 434,644</u>

CITY OF MIDDLETOWN, NEW YORK

WATER FUND  
 COMPARATIVE BALANCE SHEET  
 DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash:		
Demand deposits	\$ 525,629	\$ 838,108
Petty cash	200	200
	<u>525,829</u>	<u>838,308</u>
Receivables:		
Accounts	11,458	11,798
Water rents, net of allowance for uncollectible amounts of \$164,414 in 2010 and \$129,077 in 2009	2,268,363	1,789,400
Due from other funds	954,104	654,082
	<u>3,233,925</u>	<u>2,455,280</u>
Prepaid Expenditures	<u>24,667</u>	<u>17,202</u>
Total Assets	<u>\$ 3,784,421</u>	<u>\$ 3,310,790</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 53,369	\$ 143,283
Accrued liabilities	53,906	12,821
Due to other funds	975,999	1,096,693
Total Liabilities	<u>1,083,274</u>	<u>1,252,797</u>
Fund Balance:		
Reserved for prepaid expenditures	24,667	17,202
Reserved for future capital projects	150,000	150,000
Unreserved and undesignated	2,526,480	1,890,791
Total Fund Balance	<u>2,701,147</u>	<u>2,057,993</u>
Total Liabilities and Fund Balance	<u>\$ 3,784,421</u>	<u>\$ 3,310,790</u>

## CITY OF MIDDLETOWN, NEW YORK

## WATER FUND

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Departmental income	\$ 5,181,367	\$ 5,181,367	\$ 5,570,047	\$ 388,680
Use of money and property	3,365	3,365	3,017	(348)
Licenses and permits	10,000	10,000	12,140	2,140
Sale of property and compensation for loss	-	-	1,495	1,495
Miscellaneous	2,500	2,500	4,963	2,463
Total Revenues	<u>5,197,232</u>	<u>5,197,232</u>	<u>5,591,662</u>	<u>394,430</u>
Expenditures:				
Current:				
General government support	310,018	309,354	269,049	40,305
Home and community services	1,826,271	1,902,794	1,800,238	102,556
Employee benefits	910,758	910,699	741,791	168,908
Debt service - Interest	50,000	50,000	6,447	43,553
Total Expenditures	<u>3,097,047</u>	<u>3,172,847</u>	<u>2,817,525</u>	<u>355,322</u>
Excess of Revenues Over Expenditures	<u>2,100,185</u>	<u>2,024,385</u>	<u>2,774,137</u>	<u>749,752</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	(2,100,185)	(2,152,098)	(2,130,983)	21,115
Total Other Financing Uses	<u>(2,100,185)</u>	<u>(2,152,098)</u>	<u>(2,130,983)</u>	<u>21,115</u>
Net Change in Fund Balance	-	(127,713)	643,154	770,867
Fund Balance - Beginning of Year	-	127,713	2,057,993	1,930,280
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,701,147</u>	<u>\$ 2,701,147</u>

2009

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 4,379,259	\$ 4,379,259	\$ 4,319,337	\$ (59,922)
15,000	15,000	3,402	(11,598)
10,000	10,000	6,760	(3,240)
-	-	12,015	12,015
2,500	2,500	20,405	17,905
<u>4,406,759</u>	<u>4,406,759</u>	<u>4,361,919</u>	<u>(44,840)</u>
301,000	303,437	233,164	70,273
1,925,662	1,945,702	1,702,534	243,168
709,484	708,582	533,599	174,983
-	-	-	-
<u>2,936,146</u>	<u>2,957,721</u>	<u>2,469,297</u>	<u>488,424</u>
<u>1,470,613</u>	<u>1,449,038</u>	<u>1,892,622</u>	<u>443,584</u>
633,284	633,284	633,284	-
(2,103,897)	(2,103,897)	(2,077,736)	26,161
<u>(1,470,613)</u>	<u>(1,470,613)</u>	<u>(1,444,452)</u>	<u>26,161</u>
-	(21,575)	448,170	469,745
-	21,575	1,609,823	1,588,248
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,057,993</u>	<u>\$ 2,057,993</u>

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CITY OF MIDDLETOWN, NEW YORK

SEWER FUND  
 COMPARATIVE BALANCE SHEET  
 DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash:		
Demand deposits	\$ 592,055	\$ 200,525
Petty cash	200	200
	<u>592,255</u>	<u>200,725</u>
Receivables:		
Sewer rents, net of allowance for uncollectible amounts of \$162,672 in 2010 and \$128,176 in 2009	1,967,504	1,755,772
Due from other funds	<u>537,344</u>	<u>247,425</u>
	<u>2,504,848</u>	<u>2,003,197</u>
Prepaid Expenditures	<u>20,018</u>	<u>16,055</u>
Total Assets	<u>\$ 3,117,121</u>	<u>\$ 2,219,977</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 120,683	\$ 116,555
Accrued liabilities	34,270	6,763
Due to other funds	<u>860,238</u>	<u>1,166,894</u>
Total Liabilities	<u>1,015,191</u>	<u>1,290,212</u>
Fund Balance:		
Reserved for prepaid expenditures	20,018	20,313
Unreserved and undesignated	<u>2,081,912</u>	<u>909,452</u>
Total Fund Balance	<u>2,101,930</u>	<u>929,765</u>
Total Liabilities and Fund Balance	<u>\$ 3,117,121</u>	<u>\$ 2,219,977</u>

CITY OF MIDDLETOWN, NEW YORK

SEWER FUND

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Departmental income	\$ 4,595,403	\$ 4,595,403	\$ 4,932,212	\$ 336,809
Use of money and property	2,500	2,500	2,106	(394)
Licenses and permits	500	500	685	185
Miscellaneous	1,000	1,000	1,050	50
Total Revenues	<u>4,599,403</u>	<u>4,599,403</u>	<u>4,936,053</u>	<u>336,650</u>
Expenditures:				
Current:				
General government support	224,107	247,000	146,445	100,555
Home and community services	2,166,603	2,169,922	1,976,677	193,245
Employee benefits	798,160	798,160	579,902	218,258
Debt service - Interest	35,000	168,463	103,463	65,000
Total Expenditures	<u>3,223,870</u>	<u>3,383,545</u>	<u>2,806,487</u>	<u>577,058</u>
Excess of Revenues Over Expenditures	1,375,533	1,215,858	2,129,566	913,708
Other Financing Uses - Transfers out	<u>(1,375,533)</u>	<u>(1,242,070)</u>	<u>(957,401)</u>	<u>284,669</u>
Net Change in Fund Balance	-	(26,212)	1,172,165	1,198,377
Fund Balance - Beginning of Year	-	26,212	929,765	903,553
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,101,930</u>	<u>\$ 2,101,930</u>

2009

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 4,379,259	\$ 4,379,259	\$ 4,377,231	\$ (2,028)
2,500	2,500	2,088	(412)
1,500	1,500	200	(1,300)
2,500	2,500	14,353	11,853
<u>4,385,759</u>	<u>4,385,759</u>	<u>4,393,872</u>	<u>8,113</u>
296,762	300,011	108,318	191,693
2,344,525	2,435,285	2,101,699	333,586
565,258	564,324	476,646	87,678
126,750	126,750	117,562	9,188
<u>3,333,295</u>	<u>3,426,370</u>	<u>2,804,225</u>	<u>622,145</u>
1,052,464	959,389	1,589,647	630,258
<u>(1,052,464)</u>	<u>(1,052,464)</u>	<u>(1,046,937)</u>	<u>5,527</u>
-	(93,075)	542,710	635,785
-	93,075	387,055	293,980
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 929,765</u>	<u>\$ 929,765</u>

CITY OF MIDDLETOWN, NEW YORK

CAPITAL PROJECTS FUND  
 COMPARATIVE BALANCE SHEET  
 DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash - Demand deposits	\$ 3,856,202	\$ 3,836,826
Restricted Investments	6,036,370	18,421,988
Receivables:		
State and Federal aid	471,117	3,253,895
Due from other governments	36,980	36,980
Due from other funds	1,536,408	1,185,907
	<u>2,045,290</u>	<u>4,477,591</u>
Total Assets	<u>\$ 11,937,862</u>	<u>\$ 26,736,405</u>
<u>LIABILITIES AND FUND DEFICIT</u>		
Liabilities:		
Accounts payable	\$ 1,124,661	\$ 2,954,608
Retained percentages	1,544,909	1,418,228
Due to other funds	990,243	1,133,434
Deferred revenues	262,539	484,376
Loans payable	15,896,487	15,896,487
Bond anticipation notes payable	10,695,769	6,770,000
Total Liabilities	30,514,608	28,657,133
Fund Deficit - Unreserved and undesignated	<u>(18,576,746)</u>	<u>(1,920,728)</u>
Total Liabilities and Fund Deficit	<u>\$ 11,937,862</u>	<u>\$ 26,736,405</u>

CITY OF MIDDLETOWN, NEW YORK

CAPITAL PROJECTS FUND  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE  
 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Revenues:		
State aid	\$ 646,985	\$ 189,611
Federal aid	-	13,916,486
Miscellaneous	20,825	92,828
Total Revenues	667,810	14,198,925
Expenditures - Capital outlay	17,388,828	25,871,221
Deficiency of Revenues Over Expenditures	(16,721,018)	(11,672,296)
Other Financing Source - Transfers in	65,000	41,575
Net Change in Fund Balance	(16,656,018)	(11,630,721)
Fund Balance (Deficit) - Beginning of Year	(1,920,728)	9,709,993
Fund Deficit - End of Year	\$ (18,576,746)	\$ (1,920,728)

CITY OF MIDDLETOWN, NEW YORK

NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEET  
 DECEMBER 31, 2010  
 (With Comparative Totals for 2009)

<u>ASSETS</u>	<u>Golden Area</u>	<u>Special Purpose</u>	<u>Debt Service</u>
Cash - Demand deposits	\$ 2,376	\$ 540,505	\$ 2,010,045
Receivables:			
Due from other governments	4,554	-	-
Due from other funds	7,750	-	1,825,389
	<u>12,304</u>	<u>-</u>	<u>1,825,389</u>
Total Assets	<u>\$ 14,680</u>	<u>\$ 540,505</u>	<u>\$ 3,835,434</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>			
Liabilities:			
Accounts payable	\$ 2	\$ -	\$ -
Accrued liabilities	2,536	-	-
Due to other funds	15,893	502,550	1,305,313
Total Liabilities	<u>18,431</u>	<u>502,550</u>	<u>1,305,313</u>
Fund Balances (Deficits):			
Reserved for debt service	-	-	2,530,121
Reserved for trusts	-	37,955	-
Unreserved and undesignated	(3,751)	-	-
Total Fund Balances (Deficits)	<u>(3,751)</u>	<u>37,955</u>	<u>2,530,121</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 14,680</u>	<u>\$ 540,505</u>	<u>\$ 3,835,434</u>



## CITY OF MIDDLETOWN, NEW YORK

NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES  
 YEAR ENDED DECEMBER 31, 2010  
 (With Comparative Totals for 2009)

	Golden Area	Special Purpose	Debt Service
Revenues:			
Departmental income	\$ 68,053	\$ -	\$ -
Use of money and property	10	140	11,635
Federal aid	20,857	-	-
Miscellaneous	-	10,366	182,696
Total Revenues	<u>88,920</u>	<u>10,506</u>	<u>194,331</u>
Expenditures:			
Current:			
Public safety	-	9,068	-
Culture and recreation	117,232	-	-
Debt service:			
Principal	-	-	2,495,142
Interest	-	-	1,456,863
Total Expenditures	<u>117,232</u>	<u>9,068</u>	<u>3,952,005</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(28,312)</u>	<u>1,438</u>	<u>(3,757,674)</u>
Other Financing Sources (Uses):			
Transfers in	-	-	3,952,004
Transfers out	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>3,952,004</u>
Net Change in Fund Balances	<u>(28,312)</u>	<u>1,438</u>	<u>194,330</u>
Fund Balances -			
Beginning of Year	<u>24,561</u>	<u>36,517</u>	<u>2,335,791</u>
Fund Balances (Deficits) - End of Year	<u>\$ (3,751)</u>	<u>\$ 37,955</u>	<u>\$ 2,530,121</u>



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CITY OF MIDDLETOWN, NEW YORK

GOLDEN AREA FUND  
 COMPARATIVE BALANCE SHEET  
 DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash - Demand deposits	\$ 2,376	\$ 15,419
Receivables:		
Due from other governments	4,554	20,294
Due from other funds	7,750	-
	<u>12,304</u>	<u>20,294</u>
<b>Total Assets</b>	<u><u>\$ 14,680</u></u>	<u><u>\$ 35,713</u></u>
<u>LIABILITIES AND FUND BALANCE (DEFICIT)</u>		
Liabilities:		
Accounts payable	\$ 2	\$ 164
Accrued liabilities	2,536	1,034
Due to other funds	15,893	9,954
	<u>18,431</u>	<u>11,152</u>
<b>Total Liabilities</b>	18,431	11,152
Fund Balance (Deficit) - Unreserved and undesignated	<u>(3,751)</u>	<u>24,561</u>
<b>Total Liabilities and Fund Balance (Deficit)</b>	<u><u>\$ 14,680</u></u>	<u><u>\$ 35,713</u></u>

CITY OF MIDDLETOWN, NEW YORK

GOLDEN AREA FUND

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL  
 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Departmental income	\$ 130,598	\$ 130,598	\$ 68,053	\$ (62,545)
Use of money and property	-	-	10	10
Federal aid	28,624	28,624	20,857	(7,767)
Total Revenues	159,222	159,222	88,920	(70,302)
Expenditures - Current - Culture and recreation	159,222	159,222	117,232	41,990
Excess (Deficiency) of Revenues Over Expenditures	-	-	(28,312)	(28,312)
Fund Balance - Beginning of Year	-	-	24,561	24,561
Fund Balance (Deficit) - End of Year	\$ -	\$ -	\$ (3,751)	\$ (3,751)

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2009

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<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 115,447	\$ 115,447	\$ 79,877	\$ (35,570)
-	-	39	39
<u>26,127</u>	<u>26,127</u>	<u>37,211</u>	<u>11,084</u>
141,574	141,574	117,127	(24,447)
<u>141,574</u>	<u>141,574</u>	<u>101,566</u>	<u>40,008</u>
-	-	15,561	15,561
<u>-</u>	<u>-</u>	<u>9,000</u>	<u>9,000</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,561</u>	<u>\$ 24,561</u>

CITY OF MIDDLETOWN, NEW YORK

SPECIAL PURPOSE FUND  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash - Demand deposits	<u>\$ 540,505</u>	<u>\$ 492,615</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities -		
Due to other funds	\$ 502,550	\$ 456,098
Fund Balance - Reserved for trusts	<u>37,955</u>	<u>36,517</u>
Total Liabilities and Fund Balance	<u>\$ 540,505</u>	<u>\$ 492,615</u>

CITY OF MIDDLETOWN, NEW YORK

SPECIAL PURPOSE FUND  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Use of money and property	\$ 140	\$ 165
Miscellaneous	<u>10,366</u>	<u>17,188</u>
Total Revenues	<u>10,506</u>	<u>17,353</u>
Expenditures -		
Current:		
Public safety	9,068	15,877
Culture and recreation	<u>-</u>	<u>8,751</u>
Total Expenditures	<u>9,068</u>	<u>24,628</u>
Excess (Deficiency) of Revenues Over Expenditures	1,438	(7,275)
Fund Balance - Beginning of Year	<u>36,517</u>	<u>43,792</u>
Fund Balance - End of Year	<u><u>\$ 37,955</u></u>	<u><u>\$ 36,517</u></u>

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CITY OF MIDDLETOWN, NEW YORK

DEBT SERVICE FUND  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash - Demand deposits	\$ 2,010,045	\$ 1,855,755
Due from Other Funds	<u>1,825,389</u>	<u>1,785,349</u>
Total Assets	<u>\$ 3,835,434</u>	<u>\$ 3,641,104</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities -		
Due to other funds	\$ 1,305,313	\$ 1,305,313
Fund Balance -		
Reserved for debt service	<u>2,530,121</u>	<u>2,335,791</u>
Total Liabilities and Fund Balance	<u>\$ 3,835,434</u>	<u>\$ 3,641,104</u>

## CITY OF MIDDLETOWN, NEW YORK

DEBT SERVICE FUND  
 COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL  
 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Use of money and property	\$ -	\$ -	\$ 11,635	\$ 11,635
Federal aid	-	-	-	-
Miscellaneous	-	-	182,696	182,696
Total Revenues	-	-	194,331	194,331
Expenditures - Debt service:				
Principal:				
Bonds	2,391,143	2,391,143	2,301,143	90,000
Loans	194,000	194,000	194,000	-
	2,585,143	2,585,143	2,495,143	90,000
Interest:				
Bonds	1,796,738	1,796,738	1,382,884	413,854
Loans	73,978	73,978	73,978	-
	1,870,716	1,870,716	1,456,862	413,854
Total Expenditures	4,455,859	4,455,859	3,952,005	503,854
Deficiency of Revenues Over Expenditures	(4,455,859)	(4,455,859)	(3,757,674)	698,185
Other Financing Sources (Uses):				
Transfers in	4,455,859	4,455,859	3,952,004	(503,855)
Transfers out	-	-	-	-
Total Other Financing Sources	4,455,859	4,455,859	3,952,004	(503,855)
Net Change in Fund Balance	-	-	194,330	194,330
Fund Balance - Beginning of Year	-	-	2,335,791	2,335,791
Fund Balance - End of Year	\$ -	\$ -	\$ 2,530,121	\$ 2,530,121

2009

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 13,444	\$ 13,444
-	-	776,000	776,000
-	-	51,654	51,654
-	-	841,098	841,098
2,241,027	2,241,027	2,241,027	-
194,000	194,000	194,000	-
2,435,027	2,435,027	2,435,027	-
1,448,821	1,448,821	1,448,821	-
82,739	82,739	82,739	-
1,531,560	1,531,560	1,531,560	-
3,966,587	3,966,587	3,966,587	-
(3,966,587)	(3,966,587)	(3,125,489)	841,098
3,966,587	3,966,587	3,966,587	-
(1,075,000)	(1,075,000)	(1,075,000)	-
2,891,587	2,891,587	2,891,587	-
(1,075,000)	(1,075,000)	(233,902)	841,098
1,075,000	1,075,000	2,569,693	1,494,693
\$ -	\$ -	\$ 2,335,791	\$ 2,335,791

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

To the Honorable Mayor and City Council  
of the City of Middletown, New York:

We have audited the financial statements of the City of Middletown, New York as of and for the year ended December 31, 2010, which collectively comprise the City of Middletown, New York's basic financial statements and have issued our report thereon dated June 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Middletown, New York's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Middletown, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown, New York's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Middletown, New York's financial statements are free of 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*.

We noted certain matters that we reported to the management of the City of Middletown, New York in a separate letter.

This report is intended solely for the information and use of the City Council, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**

June 14, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and City Council of the  
City of Middletown, New York:

**Compliance**

We have audited the compliance of the City of Middletown, New York with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The City of Middletown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Middletown, New York's management. Our responsibility is to express an opinion on the City of Middletown, New York's, compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Middletown, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Middletown New York's compliance with those requirements.

In our opinion, the City of Middletown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

**Internal Control Over Compliance**

The management of the City of Middletown, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Middletown, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown, New York's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the City of Middletown as of and for the year ended December 31, 2010 and have issued our report thereon dated June 14, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**

June 14, 2011

CITY OF MIDDLETOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDING DECEMBER 31, 2010

<u>Federal Grantor</u> <u>Program Title</u>	<u>Federal CFDA Number (1)</u>	<u>Federal Program Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct Program - Community Development Block Grants - Small Cities Program	14.219	\$ 492,774
<u>U.S. Department of Justice</u>		
Indirect Programs - Passed through New York State Department of Justice:		
State and Local Law Enforcement Assistance	16.580	5,787
Bulletproof Vest Partnership Program	16.607	9,256
Total U.S. Department of Justice		15,043
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Drug Free Communities Substance Abuse and Mental Health Services	93.243	41,333
Support Mentoring Program	93.276	90,996
Total U.S. Department of Health and Human Services		132,329
<u>U.S. Department of Homeland Security</u>		
Direct Program - Assistance to Firefighters Grant	97.044	20,857
Total		\$ 661,003

(1) Catalog of Federal Domestic Assistance Number

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

1. *General*

The accompanying Schedule of Expenditures of Federal Awards presents all activity of all Federal awards programs for the year ended December 31, 2010. Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the Schedule.

2. *Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

3. *Relationship to Financial Statements*

The fund financial statements are presented using the modified accrual basis of accounting.

CITY OF MIDDLETOWN, NEW YORK

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2010

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None

CITY OF MIDDLETOWN, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2010

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**Section I-Summary of Auditor's Results**  
**Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weaknesses?

\_\_\_ Yes  X  No

\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted?

\_\_\_ Yes  X  No

**Federal Awards**

Internal Control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

\_\_\_ Yes  X  No

\_\_\_ Yes  X  None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

\_\_\_ Yes  X  No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.219

Block Grant - Entitlement

Dollar threshold used to distinguish between Type A and Type B programs:  
Auditee qualified as low-risk auditee?

\$300,000  
 X  Yes \_\_\_ No

CITY OF MIDDLETOWN, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)  
YEAR ENDED DECEMBER 31, 2010

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**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

