

CITY OF MIDDLETOWN, NEW YORK
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011
WITH INDEPENDENT AUDITORS' REPORT

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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 ("City") as of and for the year ended December 31, 2011, 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 financial statements, 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 as of December 31, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012 on our consideration of the City'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.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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 the 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
July 26, 2012

**City of Middletown, New York
Management's Discussion and Analysis (MD&A)
December 31, 2011**

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, 2011. 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.

Before getting into this discussion, it is important to note for this year's financial statement presentation that the Governmental Accounting Standards Board ("GASB") issued its Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in February 2009. The requirements of GASB Statement No. 54 became effective for financial statements for the fiscal period ending June 30, 2011; therefore they are reflected in this analysis for the first time. Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned. An explanation of these classifications follows below.

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

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

Committed – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year and that require the same level of formal action to remove the constraint.

Assigned – consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.

Unassigned – represents the residual classification for the government's General Fund and could report a surplus or deficit. In funds other than the General Fund,

the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

According to GASB, these changes were made to bring greater clarity and consistency to fund balance reporting.

Financial Highlights

Key financial highlights for fiscal year 2011 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 \$34,383,948. 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 \$6,209. The main reason for this deficit is due to 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 \$5,210,353, an increase of \$447,521. Exclusive of the Capital Projects Fund, the combined ending fund balances was \$14,327,813. Of this latter amount, the unassigned fund balance was a deficit of \$4,967,392, exclusive of the Capital Project Fund. This amount is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,973,812, or 15% of total General Fund expenditures and other financing uses.
- The City refinanced \$5,025,000 and retired \$2,354,000 of general obligation debt during the year ended December 31, 2011.
- The City issued \$575,000 and retired \$100,000 of bond anticipation notes to finance capital projects during the year ended December 31, 2011.

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.

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

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 \$8,392,434 are as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------|---------------------|---------------------|
| Capital Projects | \$ 440,683 | \$ 638,477 |
| Debt Service | 2,751,541 | 2,530,121 |
| Tax Stabilization | 8,314 | 8,305 |
| Unemployment Benefits | 85,975 | 85,547 |
| Future Capital Projects | 190,000 | 190,000 |
| Special Revenue | 4,859,335 | 5,100,143 |
| Special Purposes | 56,586 | 37,955 |
| | <u>\$ 8,392,434</u> | <u>\$ 8,590,548</u> |

There is currently a deficit of unrestricted net assets in the amount of \$8,430,138.

Changes in Net Assets

| | 2011 | 2010 |
|---|---------------|---------------|
| Program Revenues: | | |
| Charges for Services | \$ 14,483,449 | \$ 14,214,180 |
| Operating Grants and Contributions | 1,825,848 | 937,145 |
| Capital Grants and Contributions | 3,078,535 | 862,141 |
| General Revenues: | | |
| Real Property Taxes | 16,585,380 | 15,528,348 |
| Other Tax Items | 600,021 | 603,316 |
| Non-Property Taxes | 9,221,848 | 8,640,649 |
| Unrestricted Use of Money and Property | 10,657 | 20,418 |
| Sale of Property and Compensation for Loss | 80,814 | 390,361 |
| Unrestricted State Aid | 2,935,648 | 3,089,436 |
| Miscellaneous | 181,729 | 264,156 |
| Insurance recoveries | 140,410 | - |
| Gain on Sale of Real Property | - | 65,599 |
| Total Revenues | 49,144,339 | 44,615,749 |
| Program Expenses: | | |
| General Government Support | 7,695,158 | 6,571,253 |
| Public Safety | 19,695,030 | 19,225,384 |
| Transportation | 3,193,457 | 3,688,025 |
| Economic Opportunity and Development | 429,462 | 396,324 |
| Culture and Recreation | 2,809,035 | 2,930,280 |
| Home and Community Services | 13,860,122 | 12,375,139 |
| Interest | 1,468,284 | 1,545,770 |
| Total Expenses | 49,150,548 | 46,732,175 |
| Change in Net Assets | (6,209) | (2,116,426) |
| Net Assets - Beginning | 34,390,157 | 36,506,583 |
| Net Assets - Ending | \$ 34,383,948 | \$ 34,390,157 |

Governmental activities decreased the City's net assets by \$6,209. This decrease is directly attributable to the other post employment benefit obligations, which increased \$3,220,000 in the current year.

For the fiscal year ended December 31, 2011, revenues from governmental activities totaled \$48.9 million. Tax revenues (\$27.1 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, 2011 totaled \$48.7 million. The largest components of these expenses are in the areas of public safety (22%) and home and community services (24%).

The major changes are as follows:

Revenues

- Real property taxes increased \$2,377,002. This is due to a higher tax levy and the collection of prior years taxes of approximately \$325,138.
- Non-Property Taxes increased by a net of \$553,271, as a result of increase in sales tax revenues received by the County.

Expenses:

- Public Safety increased by \$469,646. This was the result of increased police retro salaries and overtime and required retirement system contributions.
- Home and Community Services increased by \$1,484,983 as a result of an 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, *unassigned 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 \$5.2 million, an increase of approximately \$447,000 from the prior year. Exclusive of the Capital Projects Fund, the combined fund balances total \$14.3 million. Of this amount, \$(14.6) million constitutes unassigned 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 (\$1,339,128), 2) a reserve for debt service (\$2,751,541), 3) a reserve for tax stabilization (\$8,314), 4) a reserve for unemployment benefits (\$85,975), 5) a reserve for future capital projects (\$190,000) and 6) a reserve for trusts (\$56,586).

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 \$6.3 million. As a measure

of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 15% of total General Fund expenditures and other financing uses, while total fund balance represents 19% of that same amount.

When the fiscal 2011 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 \$994,294 of fund balance. However, actual results of operations resulted in an increase in fund balance of \$1,585,249, a positive variance of approximately \$2,579,000.

These results were derived from expenditure savings offset by lower than anticipated revenues. Overall, General Fund expenditures and other financing uses were \$32.9 million, which was \$1.3 million, or 4%, less than the final budget. The major areas where spending was less than budget was general government support (\$587,663) and home and community (\$93,298). The General Fund revenues were \$34.5 million, which was \$1,236,366, or 4%, less than the final budget. The largest revenue category that reflected a positive variance as compared to the budget was the net between real property taxes 314,056 and non-property taxes \$738,848 as a result of a higher amount received for sales tax.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$1,507,155 for 2011. This change was primarily attributable to an increase in the appropriation for the corporate counsel, judgment and claims, and disaster assistance in the general government support.

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2011, amounted to \$90.7 million (net of accumulated depreciation) as compared to \$89.2 million in 2010. This investment in capital assets includes land, buildings and improvements, improvements other than buildings and machinery and equipment.

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

| | 2011 | 2010 |
|-----------------------------------|-------------------|-------------------|
| Land | \$ 3,822,955 | \$ 3,668,067 |
| Buildings and Improvements | 59,714,221 | 59,941,099 |
| Improvements Other than Buildings | 1,814,454 | 2,020,168 |
| Infrastructure | 16,316,972 | 16,372,383 |
| Machinery and Equipment | 4,407,794 | 4,754,221 |
| Construction-in-Progress | 4,661,597 | 2,528,162 |
| Total | \$ 90,737,993 | \$ 89,284,100 |

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 \$37,014,999. 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 2011 fiscal year, the City retired \$2,065,000 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, 2011

| | Primary Government | Component Unit Industrial Development Agency |
|--|----------------------------|---|
| | Governmental Activities | Agency |
| ASSETS | | |
| Cash and equivalents | \$ 11,492,038 | \$ 113,076 |
| Restricted investments | 2,639,114 | - |
| Receivables: | | |
| Taxes, net | 2,333,214 | - |
| Mortgages | 87,743 | - |
| Accounts | 511,443 | 9,290 |
| Loans, net | 3,861,138 | - |
| Sewer rents, net | 2,264,023 | - |
| Water rents, net | 2,625,841 | - |
| State and Federal aid | 221,735 | - |
| Due from other governments | 2,520,444 | - |
| Prepaid expenses | 1,339,128 | - |
| Deferred charges | 160,397 | - |
| Capital assets: | | |
| Not being depreciated | 8,484,552 | - |
| Being depreciated, net | 82,253,441 | 142 |
| Total Assets | 120,794,251 | 122,508 |
| LIABILITIES | | |
| Accounts payable | 2,378,356 | 79,348 |
| Accrued liabilities | 1,687,910 | - |
| Accrued interest payable | 538,731 | - |
| Retained percentages | 279,978 | - |
| Due to State and Federal governments | 52,014 | - |
| Due to County for tax levy | 193,404 | - |
| Due to school district | 1,445,904 | - |
| Unearned revenues | 251,774 | - |
| Loans payable | 12,967,105 | - |
| Bond anticipation notes payable | 11,170,769 | - |
| Non-current liabilities: | | |
| Due within one year | 3,179,741 | - |
| Due in more than one year | 52,264,617 | - |
| Total Liabilities | 86,410,303 | 79,348 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 34,421,652 | - |
| Restricted for: | | |
| Capital projects | 440,683 | - |
| Debt service | 2,751,541 | - |
| Tax stabilization | 8,314 | - |
| Unemployment benefits | 85,975 | - |
| Future capital projects | 190,000 | - |
| Community development | 1,907,986 | - |
| Water | 995,744 | - |
| Sewer | 1,955,605 | - |
| Special purposes | 56,586 | - |
| Unrestricted | (8,430,138) | 43,160 |
| Total Net Assets | \$ 34,383,948 | \$ 43,160 |

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

CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2011

| Functions/Programs | Expenses | Program Revenues | | |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government - | | | | |
| Governmental activities: | | | | |
| General government support | \$ 7,695,158 | \$ 1,116,831 | \$ 108,992 | \$ - |
| Public safety | 19,695,030 | 381,173 | 413,792 | - |
| Transportation | 3,193,457 | - | - | 458,635 |
| Economic opportunity and development | 429,462 | 44,988 | 59,011 | - |
| Culture and recreation | 2,809,035 | 310,357 | 75,964 | - |
| Home and community services | 13,860,122 | 12,630,100 | 1,168,089 | 2,398,482 |
| Interest | 1,468,284 | - | - | 221,418 |
| Total Governmental Activities | <u>\$ 49,150,548</u> | <u>\$ 14,483,449</u> | <u>\$ 1,825,848</u> | <u>\$ 3,078,535</u> |
| Component unit - | | | | |
| Industrial Development Agency | <u>\$ 11,733</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
 Miscellaneous
 Insurance recoveries

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.

| <u>Net (Expense) Revenue and Changes in Net Assets</u> | |
|--|--|
| <u>Primary Government</u> | <u>Component Unit</u> |
| <u>Governmental Activities</u> | <u>Industrial Development Agency</u> |
| \$ (6,469,335) | \$ - |
| (18,900,065) | - |
| (2,734,822) | - |
| (325,463) | - |
| (2,422,714) | - |
| 2,336,549 | - |
| (1,246,866) | - |
| <u>(29,762,716)</u> | <u>-</u> |
| - | (11,733) |
| 16,585,380 | - |
| 342,441 | - |
| 257,580 | - |
| 8,372,684 | - |
| 377,673 | - |
| 471,491 | - |
| 10,657 | 106 |
| 80,814 | - |
| 2,935,648 | - |
| 181,729 | - |
| 140,410 | - |
| <u>29,756,507</u> | <u>(11,627)</u> |
| (6,209) | (11,627) |
| <u>34,390,157</u> | <u>54,787</u> |
| <u>\$ 34,383,948</u> | <u>\$ 43,160</u> |

CITY OF MIDDLETOWN, NEW YORK

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

| | General | Community Development | Water | Sewer |
|---|----------------------|--------------------------|---------------------|---------------------|
| ASSETS | | | | |
| Cash and Equivalents | \$ 3,299,654 | \$ 545,754 | \$ 812,400 | \$ 1,015,605 |
| Restricted Investments | - | - | - | - |
| Taxes Receivable, net | 2,333,214 | - | - | - |
| Other Receivables: | | | | |
| Mortgages | 87,743 | - | - | - |
| Accounts | 484,600 | 11,672 | 15,171 | - |
| Loans, net | - | 3,861,138 | - | - |
| Sewer rents, net | - | - | - | 2,264,023 |
| Water rents, net | - | - | 2,625,841 | - |
| State and Federal aid | 82,601 | 49,690 | - | - |
| Due from other governments | 2,450,487 | - | - | - |
| Due from other funds | 1,978,132 | 3,318 | 800,768 | 44,993 |
| | <u>5,083,563</u> | <u>3,925,818</u> | <u>3,441,780</u> | <u>2,309,016</u> |
| Prepaid Expenditures | 1,219,739 | - | 63,501 | 55,888 |
| Total Assets | <u>\$ 11,936,170</u> | <u>\$ 4,471,572</u> | <u>\$ 4,317,681</u> | <u>\$ 3,380,509</u> |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,539,671 | \$ - | \$ 146,299 | \$ 121,955 |
| Accrued liabilities | 1,578,929 | 1,719 | 71,844 | 32,477 |
| Accrued interest payable | - | - | - | - |
| Retained percentages | - | - | - | - |
| Due to State and Federal governments | 17,269 | 34,745 | - | - |
| Due to County for tax levy | 193,404 | - | - | - |
| Due to school district | 1,445,904 | - | - | - |
| Due to other funds | 29,648 | 233,003 | 1,939,284 | 529,032 |
| Deferred revenues | 87,743 | 3,861,138 | - | - |
| Deferred tax revenues | 715,762 | - | - | - |
| Loans payable | - | - | - | - |
| Bond anticipation notes payable | - | - | - | - |
| Total Liabilities | <u>5,608,330</u> | <u>4,130,605</u> | <u>2,157,427</u> | <u>683,464</u> |
| Fund Balances (Deficits): | | | | |
| Nonspendable | 1,219,739 | - | 63,501 | 55,888 |
| Restricted | 134,289 | - | 150,000 | - |
| Assigned | - | 340,967 | 1,946,753 | 2,641,157 |
| Unassigned | 4,973,812 | - | - | - |
| Total Fund Balances (Deficits) | <u>6,327,840</u> | <u>340,967</u> | <u>2,160,254</u> | <u>2,697,045</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 11,936,170</u> | <u>\$ 4,471,572</u> | <u>\$ 4,317,681</u> | <u>\$ 3,380,509</u> |

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

| Capital Projects | Other Governmental | Total Governmental Funds |
|---------------------|-----------------------|--------------------------------|
| \$ 2,770,478 | \$ 3,048,147 | \$ 11,492,038 |
| 2,639,114 | - | 2,639,114 |
| - | - | 2,333,214 |
| - | - | 87,743 |
| - | - | 511,443 |
| - | - | 3,861,138 |
| - | - | 2,264,023 |
| - | - | 2,625,841 |
| 89,444 | - | 221,735 |
| 61,673 | 8,284 | 2,520,444 |
| 1,159,015 | 978,154 | 4,964,380 |
| 1,310,132 | 986,438 | 17,056,747 |
| - | - | 1,339,128 |
| \$ 6,719,724 | \$ 4,034,585 | \$ 34,860,241 |

| | | |
|--------------|--------------|---------------|
| \$ 570,093 | \$ 338 | \$ 2,378,356 |
| - | 2,941 | 1,687,910 |
| - | 14,357 | 14,357 |
| 279,978 | - | 279,978 |
| - | - | 52,014 |
| - | - | 193,404 |
| - | - | 1,445,904 |
| 1,018,171 | 1,215,242 | 4,964,380 |
| 251,774 | - | 4,200,655 |
| - | - | 715,762 |
| 12,967,105 | - | 12,967,105 |
| 11,170,769 | - | 11,170,769 |
| 26,257,890 | 1,232,878 | 40,070,594 |
| - | - | 1,339,128 |
| - | 2,808,127 | 3,092,416 |
| - | - | 4,928,877 |
| (19,538,166) | (6,420) | (14,570,774) |
| (19,538,166) | 2,801,707 | (5,210,353) |
| \$ 6,719,724 | \$ 4,034,585 | \$ 34,860,241 |

CITY OF MIDDLETOWN, NEW YORK

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT - WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

| | |
|--|----------------------|
| Fund Balances - Total Governmental Funds | \$ (5,210,353) |
| 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. | <u>90,737,993</u> |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | |
| Real property taxes | 715,762 |
| Departmental income | 3,861,138 |
| Mortgage receivable | <u>87,743</u> |
| | <u>4,664,643</u> |
| 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>160,397</u> |
| Long-term liabilities that are not due and payable in the current period are not reported in the funds. | |
| Accrued interest payable | (524,374) |
| Bonds payable | (36,968,862) |
| Loans payable | (2,073,454) |
| Compensated absences | (2,557,178) |
| Claims payable | (3,754,864) |
| Other post employment benefit obligations payable | <u>(10,090,000)</u> |
| | <u>(55,968,732)</u> |
| Net Assets of Governmental Activities | <u>\$ 34,383,948</u> |

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, 2011

| | General | Community Development | Water | Sewer |
|--|---------------------|--------------------------|---------------------|---------------------|
| REVENUES | | | | |
| Real property taxes | \$ 17,316,884 | \$ - | \$ - | \$ - |
| Other tax items | 600,021 | - | - | - |
| Non-property taxes | 9,221,848 | - | - | - |
| Departmental income | 753,727 | 621,913 | 5,773,911 | 5,229,180 |
| Intergovernmental charges | 265,499 | - | - | - |
| Use of money and property | 287,054 | 6,208 | 1,908 | 1,474 |
| Licenses and permits | 241,161 | - | 10,360 | - |
| Fines and forfeitures | 378,033 | - | - | - |
| Sale of property and compensation for loss | 80,814 | - | 2,501 | - |
| State aid | 3,073,889 | - | - | - |
| Federal aid | 384,363 | 1,123,053 | - | - |
| Miscellaneous | 291,636 | - | 4,600 | 846 |
| Total Revenues | <u>32,894,929</u> | <u>1,751,174</u> | <u>5,793,280</u> | <u>5,231,500</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government support | 5,013,982 | - | 340,215 | 123,490 |
| Public safety | 10,722,631 | - | - | - |
| Transportation | 1,991,146 | - | - | - |
| Economic opportunity and development | 274,550 | - | - | - |
| Culture and recreation | 1,495,845 | - | - | - |
| Home and community services | 2,075,546 | 2,066,293 | 2,065,003 | 2,000,469 |
| Employee benefits | 10,337,888 | - | 701,723 | 558,683 |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | 34,850 | - | 32,086 | 93,156 |
| Refunding bond issuance cost | - | - | - | - |
| Total Expenditures | <u>31,946,438</u> | <u>2,066,293</u> | <u>3,139,027</u> | <u>2,775,798</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>948,491</u> | <u>(315,119)</u> | <u>2,654,253</u> | <u>2,455,702</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance recoveries | 140,410 | - | - | - |
| Sale of real property | 10,902 | - | - | - |
| Refunding bonds issued | - | - | - | - |
| Payments to refunded bond escrow agent | - | - | - | - |
| Premium on bonds issued | - | - | - | - |
| Loans issued | - | 54,454 | - | - |
| Transfers in | 1,517,944 | - | - | - |
| Transfers out | (1,032,498) | (207,247) | (3,195,146) | (1,860,587) |
| Total Other Financing Sources (Uses) | <u>636,758</u> | <u>(152,793)</u> | <u>(3,195,146)</u> | <u>(1,860,587)</u> |
| Net Change in Fund Balances | 1,585,249 | (467,912) | (540,893) | 595,115 |
| Fund Balances (Deficits) - Beginning of Year | 4,742,591 | 808,879 | 2,701,147 | 2,101,930 |
| Fund Balances (Deficits) - End of Year | <u>\$ 6,327,840</u> | <u>\$ 340,967</u> | <u>\$ 2,160,254</u> | <u>\$ 2,697,045</u> |

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

| Capital Projects | Other Governmental | Total Governmental Funds |
|------------------------|-----------------------|--------------------------------|
| \$ - | \$ - | \$ 17,316,884 |
| - | - | 600,021 |
| - | - | 9,221,848 |
| - | 101,059 | 12,479,790 |
| - | - | 265,499 |
| - | 5,510 | 302,154 |
| - | - | 251,521 |
| - | - | 378,033 |
| - | - | 83,315 |
| 433,942 | - | 3,507,831 |
| 2,398,482 | 15,098 | 3,920,996 |
| 24,693 | 253,120 | 574,895 |
| <u>2,857,117</u> | <u>374,787</u> | <u>48,902,787</u> |
| - | - | 5,477,687 |
| - | 18,575 | 10,741,206 |
| - | - | 1,991,146 |
| - | - | 274,550 |
| - | 118,832 | 1,614,677 |
| - | - | 8,207,311 |
| - | - | 11,598,294 |
| 4,968,281 | - | 4,968,281 |
| - | 2,354,000 | 2,354,000 |
| - | 1,273,788 | 1,433,880 |
| - | 125,734 | 125,734 |
| <u>4,968,281</u> | <u>3,890,929</u> | <u>48,786,766</u> |
| <u>(2,111,164)</u> | <u>(3,516,142)</u> | <u>116,021</u> |
| - | - | 140,410 |
| - | - | 10,902 |
| - | 5,025,000 | 5,025,000 |
| - | (5,030,779) | (5,030,779) |
| - | 131,513 | 131,513 |
| - | - | 54,454 |
| 1,149,744 | 3,627,790 | 6,295,478 |
| - | - | (6,295,478) |
| <u>1,149,744</u> | <u>3,753,524</u> | <u>331,500</u> |
| (961,420) | 237,382 | 447,521 |
| <u>(18,576,746)</u> | <u>2,564,325</u> | <u>(5,657,874)</u> |
| <u>\$ (19,538,166)</u> | <u>\$ 2,801,707</u> | <u>\$ (5,210,353)</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, 2011

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

| | |
|---|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | <u>\$ 573,255</u> |
| <p>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.</p> | |
| Capital outlay expenditures | 4,839,385 |
| Depreciation expense | <u>(3,385,492)</u> |
| | <u>1,453,893</u> |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | |
| Real property taxes | (731,504) |
| Departmental income | 387,087 |
| Mortgages | <u>(10,902)</u> |
| | <u>(355,319)</u> |
| <p>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.</p> | |
| Refunding bonds issued | (5,025,000) |
| Payments to refunded bond escrow agent | 5,030,779 |
| Premium on bonds issued | (131,513) |
| Refunding bond issuance costs | 125,734 |
| Principal paid on bonds | 2,220,000 |
| Loans issued | (54,454) |
| Principal paid on loans | 134,000 |
| Amortization of issuance costs, loss on refunding and premium | <u>(25,340)</u> |
| | <u>2,274,206</u> |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | |
| Accrued interest | (28,396) |
| Compensated absences | 94,801 |
| Claims | (672,915) |
| Other post employment benefit obligations | <u>(3,220,000)</u> |
| | <u>(3,826,510)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 119,525</u> |

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, WATER AND SEWER FUNDS
 YEAR ENDED DECEMBER 31, 2011

| | General Fund | | | |
|--|--------------------|-------------------|-------------------|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
| REVENUES | | | | |
| Real property taxes | \$ 17,002,828 | \$ 17,002,828 | \$ 17,316,884 | \$ 314,056 |
| Other tax items | 542,000 | 542,000 | 600,021 | 58,021 |
| Non-property taxes | 8,483,000 | 8,483,000 | 9,221,848 | 738,848 |
| Departmental income | 855,246 | 881,729 | 753,727 | (128,002) |
| Intergovernmental charges | 163,500 | 206,292 | 265,499 | 59,207 |
| Use of money and property | 239,905 | 239,905 | 287,054 | 47,149 |
| Licenses and permits | 174,250 | 174,250 | 241,161 | 66,911 |
| Fines and forfeitures | 253,500 | 253,500 | 378,033 | 124,533 |
| Sale of property and compensation for loss | 80,500 | 80,500 | 80,814 | 314 |
| State aid | 3,196,784 | 3,301,484 | 3,073,889 | (227,595) |
| Federal aid | 115,500 | 316,864 | 384,363 | 67,499 |
| Miscellaneous | 110,001 | 247,523 | 291,636 | 44,113 |
| Total Revenues | 31,217,014 | 31,729,875 | 32,894,929 | 1,165,054 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government support | 4,649,741 | 5,601,645 | 5,013,982 | 587,663 |
| Public safety | 10,779,601 | 10,906,715 | 10,722,631 | 184,084 |
| Transportation | 1,988,861 | 2,078,397 | 1,991,146 | 87,251 |
| Economic opportunity and development | 296,635 | 296,714 | 274,550 | 22,164 |
| Culture and recreation | 1,402,067 | 1,616,264 | 1,495,845 | 120,419 |
| Home and community services | 2,148,856 | 2,168,844 | 2,075,546 | 93,298 |
| Employee benefits | 10,450,355 | 10,554,692 | 10,337,888 | 216,804 |
| Debt service - Interest | 80,000 | 45,000 | 34,850 | 10,150 |
| Total Expenditures | 31,796,116 | 33,268,271 | 31,946,438 | 1,321,833 |
| Excess (Deficiency) of Revenues Over Expenditures | (579,102) | (1,538,396) | 948,491 | 2,486,887 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance recoveries | 65,000 | 65,000 | 140,410 | 75,410 |
| Sale of real property | 15,000 | 15,000 | 10,902 | (4,098) |
| Transfers in | 1,517,944 | 1,517,944 | 1,517,944 | - |
| Transfers out | (1,018,842) | (1,053,842) | (1,032,498) | 21,344 |
| Total Other Financing Sources (Uses) | 579,102 | 544,102 | 636,758 | 92,656 |
| Net Change in Fund Balances | - | (994,294) | 1,585,249 | 2,579,543 |
| Fund Balances - Beginning of Year | - | 994,294 | 4,742,591 | 3,748,297 |
| Fund Balances - End of Year | \$ - | \$ - | \$ 6,327,840 | \$ 6,327,840 |

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) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 5,904,848 | 5,904,848 | 5,773,911 | (130,937) | 5,362,602 | 5,362,602 | 5,229,180 | (133,422) |
| - | - | - | - | - | - | - | - |
| 3,500 | 3,500 | 1,908 | (1,592) | 2,500 | 2,500 | 1,474 | (1,026) |
| 7,000 | 7,000 | 10,360 | 3,360 | 500 | 500 | - | (500) |
| - | - | - | - | - | - | - | - |
| - | - | 2,501 | 2,501 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 2,500 | 2,500 | 4,600 | 2,100 | 1,000 | 1,000 | 846 | (154) |
| <u>5,917,848</u> | <u>5,917,848</u> | <u>5,793,280</u> | <u>(124,568)</u> | <u>5,366,602</u> | <u>5,366,602</u> | <u>5,231,500</u> | <u>(135,102)</u> |
| 245,824 | 352,855 | 340,215 | 12,640 | 112,080 | 140,883 | 123,490 | 17,393 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 2,004,715 | 2,126,541 | 2,065,003 | 61,538 | 2,024,614 | 2,168,284 | 2,000,469 | 167,815 |
| 877,209 | 778,966 | 701,723 | 77,243 | 752,304 | 722,831 | 558,683 | 164,148 |
| 41,000 | 41,000 | 32,086 | 8,914 | 167,000 | 102,000 | 93,156 | 8,844 |
| <u>3,168,748</u> | <u>3,299,362</u> | <u>3,139,027</u> | <u>160,335</u> | <u>3,055,998</u> | <u>3,133,998</u> | <u>2,775,798</u> | <u>358,200</u> |
| 2,749,100 | 2,618,486 | 2,654,253 | 35,767 | 2,310,604 | 2,232,604 | 2,455,702 | 223,098 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| (2,749,100) | (3,238,844) | (3,195,146) | 43,698 | (2,310,604) | (2,375,604) | (1,860,587) | 515,017 |
| (2,749,100) | (3,238,844) | (3,195,146) | 43,698 | (2,310,604) | (2,375,604) | (1,860,587) | 515,017 |
| - | (620,358) | (540,893) | 79,465 | - | (143,000) | 595,115 | 738,115 |
| - | 620,358 | 2,701,147 | 2,080,789 | - | 143,000 | 2,101,930 | 1,958,930 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,160,254</u> | <u>\$ 2,160,254</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,697,045</u> | <u>\$ 2,697,045</u> |

CITY OF MIDDLETOWN, NEW YORK

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2011

| | <u>Agency</u> |
|-----------------------------|-------------------|
| ASSETS | |
| Accounts Receivable | <u>\$ 414,804</u> |
| LIABILITIES | |
| Accounts Payable | \$ 152,909 |
| Employee Payroll Deductions | 48,978 |
| Deposits | <u>212,917</u> |
| Total Liabilities | <u>\$ 414,804</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 and is used to account for and report all financial resources not accounted for and reported in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. 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 and report financial resources that are restricted, committed or assigned for capital outlay, including 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 and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and for financial resources that are being accumulated for principal and interest maturing in future years..

- 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.

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 guidance 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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2011.

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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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 nonspendable 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).

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 \$87,743 for mortgages and \$715,762 for real property taxes in the General Fund. The Community Development Fund reflects deferred revenues \$3,861,138 for loans receivable. The City has also reported deferred revenues of \$251,774 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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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, community development, water, sewer and special purpose. The balance is classified as unrestricted.

Fund Balances - Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard the fund balance classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables, advances) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

Restricted fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in General Municipal Law.

Committed fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the entity's highest level of decision making authority. These funds may only be used for the purpose specified unless the entity removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain designations established and approved by the entity's governing board.

Assigned fund balance, in the General Fund, will represent amounts constrained either by the entity's highest level of decision making authority or a person with delegated authority from the governing board to assign amounts for a specific intended purpose. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. This classification will include amounts designated for balancing the subsequent year's budget and encumbrances. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.

Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: committed, assigned, and unassigned.

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 July 26, 2012.

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.
- 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.

Note 2 - Stewardship, Compliance and Accountability (Continued)

- 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 2011 was \$38,322,585, inclusive of exclusions, which exceeded the actual levy by \$21,319,757 (See Note 5).

C. Fund Deficits

The Golden Area Fund reflects an unassigned deficit of \$6,420, at December 31, 2011. The City plans to address this deficit in the ensuing year.

The unreserved and undesignated deficit in the Capital Projects Fund of \$19,538,166 arises because of the application of generally accepted accounting principles to the financial reporting of such funds. The proceeds of bond anticipation notes and loans issued to finance construction of capital projects are not recognized as an "other financing source". Liabilities for bond anticipation loans payable and loans are accounted for in the Capital Projects Fund. Bond anticipation notes and loans are recognized as revenue only to the extent that they are redeemed. The deficit will be reduced and eliminated as bond anticipation notes and loans 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 \$2,639,114 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, 2011 consisted of the following:

| | |
|---|---------------------|
| City and County taxes - Current and overdue | \$ 1,327,090 |
| School district taxes - Current and overdue | 967,599 |
| Tax sale certificates | 864,770 |
| Property acquired for taxes | <u>1,412,098</u> |
| | 4,571,557 |
| Allowance for uncollectible taxes | <u>(2,238,343)</u> |
| | <u>\$ 2,333,214</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 \$715,762, 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 \$19,243 at December 31, 2011. 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, 2011. 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.

D. Due From/To Other Funds

The balances reflected as due from/to other funds at December 31, 2011 were as follows:

| <u>Fund</u> | <u>Due From</u> | <u>Due To</u> |
|------------------------|---------------------|---------------------|
| General | \$ 1,978,132 | \$ 29,648 |
| Community Development | 3,318 | 233,003 |
| Water | 800,768 | 1,939,284 |
| Sewer | 44,993 | 529,032 |
| Capital Projects | 1,159,015 | 1,018,171 |
| Non-Major Governmental | <u>978,154</u> | <u>1,215,242</u> |
| | <u>\$ 4,964,380</u> | <u>\$ 4,964,380</u> |

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011**Note 3 - Detailed Notes on All Funds (Continued)**

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, 2011 | Additions | Deletions | Balance December 31, 2011 |
|--|-------------------------------|---------------------|---------------|---------------------------------|
| Governmental Activities: | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 3,668,067 | \$ 154,888 | \$ - | \$ 3,822,955 |
| Construction-in-progress | 2,528,162 | 2,133,435 | - | 4,661,597 |
| | <u>\$ 6,196,229</u> | <u>\$ 2,288,323</u> | <u>\$ -</u> | <u>\$ 8,484,552</u> |
| Total Capital Assets, not being depreciated | | | | |
| Capital Assets, being depreciated: | | | | |
| Buildings and improvements | \$ 70,701,321 | \$ 1,541,169 | \$ - | \$ 72,242,490 |
| Improvements other than buildings | 4,476,985 | - | - | 4,476,985 |
| Infrastructure | 23,821,953 | 423,177 | - | 24,245,130 |
| Machinery and equipment | 25,821,287 | 586,716 | 71,093 | 26,336,910 |
| | <u>124,821,546</u> | <u>2,551,062</u> | <u>71,093</u> | <u>127,301,515</u> |
| Total Capital Assets, being depreciated | | | | |
| Less Accumulated Depreciation for: | | | | |
| Buildings and improvements | 10,760,222 | 1,768,047 | - | 12,528,269 |
| Improvements other than buildings | 2,456,817 | 205,714 | - | 2,662,531 |
| Infrastructure | 7,449,570 | 478,588 | - | 7,928,158 |
| Machinery and equipment | 21,067,066 | 933,143 | 71,093 | 21,929,116 |
| | <u>41,733,675</u> | <u>3,385,492</u> | <u>71,093</u> | <u>45,048,074</u> |
| Total Accumulated Depreciation | | | | |
| | <u>\$ 83,087,871</u> | <u>\$ (834,430)</u> | <u>\$ -</u> | <u>\$ 82,253,441</u> |
| Total Capital Assets, being depreciated, net | | | | |
| Capital Assets, net | <u>\$ 89,284,100</u> | <u>\$ 1,453,893</u> | <u>\$ -</u> | <u>\$ 90,737,993</u> |

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

| | |
|---------------------------------|---------------------|
| Governmental Activities: | |
| General government support | \$ 121,549 |
| Public safety | 490,333 |
| Transportation | 234,857 |
| Culture and recreation | 119,979 |
| Home and community services | <u>2,418,774</u> |
| Total Depreciation Expense | <u>\$ 3,385,492</u> |

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

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

| Class | Balance January 1, 2011 | Additions | Balance December 31, 2011 |
|------------------------------------|-------------------------------|-----------------|---------------------------------|
| Capital Assets, being depreciated: | | | |
| Equipment | \$ 1,219 | \$ - | \$ 1,219 |
| Less Accumulated Depreciation for: | | | |
| Equipment | 833 | 244 | 1,077 |
| Capital Assets, net | <u>\$ 386</u> | <u>\$ (244)</u> | <u>\$ 142</u> |

F. Accrued Liabilities

Accrued liabilities at December 31, 2011 were as follows:

| | Fund | | | | | Total Governmental |
|----------------------------------|---------------------|--------------------------|------------------|------------------|---------------------------|-----------------------|
| | General | Community Development | Water | Sewer | Non-Major Governmental | |
| Payroll and Employee Benefits | \$ 1,578,929 | \$ 1,719 | \$ 71,844 | \$ 32,477 | \$ - | \$ 1,684,969 |
| Other | - | - | - | - | 2,941 | 2,941 |
| | <u>\$ 1,578,929</u> | <u>\$ 1,719</u> | <u>\$ 71,844</u> | <u>\$ 32,477</u> | <u>\$ 2,941</u> | <u>\$ 1,687,910</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, 2012 are as follows:

Note 3 - Detailed Notes on All Funds (Continued)

| | <u>Tier/Plan</u> | <u>Rate</u> |
|------|------------------|-------------|
| ERS | 1 75I | 21.5% |
| | 2 75I | 19.7 |
| | 3 A14 | 15.8 |
| | 4 A15 | 15.8 |
| | 5 A15 | 12.7 |
| PFRS | 1 384D | 26.0 |
| | 2 384D | 20.9 |
| | 3 384D | 20.9 |

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

| | <u>ERS</u> | <u>PFRS</u> |
|------|--------------|--------------|
| 2011 | \$ 1,013,489 | \$ 1,885,275 |
| 2010 | 701,479 | 1,250,849 |
| 2009 | 515,825 | 1,334,130 |

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 | \$ 731,140 |
| Community Development | 24,635 |
| Water | 144,896 |
| Sewer | 112,818 |
| | <u>\$ 1,013,489</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 \$10,987,105 for the financing of the Clean Water Facility Project. The loan is due, without interest, in June, 2012.

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 June, 2012.

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011**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, 2011 | New Issues | Redemptions | Balance December 31, 2011 |
|---------------------------------------|------------------------------|------------------|------------------|-------------------------------|-------------------|-------------------|---------------------------------|
| Bond Anticipation Notes: | | | | | | | |
| Sewage Treatment Plant Reconstruction | 2002 | 02/23/12 | 1.04 % | \$ 2,635,000 | \$ - | \$ 35,000 | \$ 2,600,000 |
| Sewage Treatment Plant Reconstruction | 2008 | 02/23/12 | 1.50 | 2,970,000 | - | 30,000 | 2,940,000 |
| Purchase of Fire Trucks | 2009 | 02/23/12 | 1.50 | 1,100,000 | - | 35,000 | 1,065,000 |
| Water Supply System Reconstruction | 2010 | 02/23/12 | 1.26 | 1,800,000 | - | - | 1,800,000 |
| Machinery and Equipment | 2010 | 02/23/12 | 1.04 | 573,000 | - | - | 573,000 |
| Improvements to Building | 2010 | 02/23/12 | 1.04 | 270,000 | - | - | 270,000 |
| Pole Barn | 2010 | 02/23/12 | 1.04 | 100,000 | - | - | 100,000 |
| Water Meters Purchase | 2010 | 02/23/12 | 1.04 | 100,000 | - | - | 100,000 |
| Water and Sewer Mains | 2010 | 02/23/12 | 1.04 | 100,000 | - | - | 100,000 |
| Sewers Replacements | 2010 | 02/23/12 | 1.04 | 150,000 | - | - | 150,000 |
| Municipal Pool Improvements | 2010 | 02/23/12 | 1.04 | 100,000 | - | - | 100,000 |
| Recreations | 2010 | 02/23/12 | 1.04 | 310,000 | - | - | 310,000 |
| Senior Citizens Bus Purchase | 2010 | 02/23/12 | 1.50 | 30,495 | - | - | 30,495 |
| Water Treatment Plant - Phase 1 | 2010 | 02/23/12 | 1.50 | 29,700 | - | - | 29,700 |
| Water Treatment Plant - Phase 2 | 2010 | 02/23/12 | 1.04 | 194,800 | - | - | 194,800 |
| Mill Pond Water Main Replacements | 2010 | 02/23/12 | 1.50 | 202,166 | - | - | 202,166 |
| Garbage Truck | 2010 | 02/23/12 | 1.50 | 30,608 | - | - | 30,608 |
| Acquisition of Building - TD Bank | 2011 | 02/23/12 | 1.26 | - | 575,000 | - | 575,000 |
| | | | | <u>\$ 10,695,769</u> | <u>\$ 575,000</u> | <u>\$ 100,000</u> | <u>\$ 11,170,769</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 \$34,850, \$32,086 and \$93,156 were recorded in the fund financial statements in the General, Water and Sewer funds, respectively.

Interest expense of \$157,178 was recorded in the government-wide financial statements for governmental activities.

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011**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, 2011:

| | Balance January 1, 2011 | New Issues/ Additions | Maturities and/or Payments | Balance December 31, 2011 | Due Within One-Year |
|---|-------------------------------|-----------------------------|----------------------------------|---------------------------------|---------------------------|
| Bonds Payable | \$ 39,079,999 | \$ 5,025,000 | \$ 7,090,000 | \$ 37,014,999 | \$ 2,135,000 |
| Less: Deferred Amounts on Refunding | (22,881) | (29,266) | (6,010) | (46,137) | - |
| | <u>39,057,118</u> | <u>4,995,734</u> | <u>7,083,990</u> | <u>36,968,862</u> | <u>2,135,000</u> |
| Loans Payable | <u>2,153,000</u> | <u>54,454</u> | <u>134,000</u> | <u>2,073,454</u> | <u>93,741</u> |
| Other Non-current Liabilities: | | | | | |
| Compensated Absences | 2,651,979 | 170,199 | 265,000 | 2,557,178 | 256,000 |
| Claims Payable | 3,081,949 | 1,266,831 | 593,916 | 3,754,864 | 695,000 |
| Other post employment benefit obligation payable | <u>6,870,000</u> | <u>5,000,000</u> | <u>1,780,000</u> | <u>10,090,000</u> | <u>-</u> |
| Total Other Non-Current Liabilities | <u>12,603,928</u> | <u>6,437,030</u> | <u>2,638,916</u> | <u>16,402,042</u> | <u>951,000</u> |
| Total Long-Term Liabilities | <u>\$ 53,814,046</u> | <u>\$ 11,487,218</u> | <u>\$ 9,856,906</u> | <u>\$ 55,444,358</u> | <u>\$ 3,179,741</u> |

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, 2011 are comprised of the following individual issues:

| Purpose | Year of Issue | Original Issue Amount | Final Maturity | Interest Rates | Amount Outstanding at December 31, 2011 |
|--------------------------------------|------------------|-----------------------------|-------------------|-------------------|---|
| Refunding | 2002 | \$ 4,700,000 | March, 2012 | 6.600 % | \$ 280,000 |
| Water Purposes | 2004 | 3,397,093 | May, 2023 | 3.125 - 4.475 | 2,210,000 |
| Refunding | 2005 | 5,530,000 | October, 2017 | 3.750 - 4.917 | 3,100,000 |
| Environmental Facilities Corporation | 2006 | 3,671,027 | April, 2036 | 3.971 - 4.861 | 3,230,000 |
| Public Improvement | 2007 | 5,210,000 | July, 2028 | 4.000 - 5.000 | 4,524,999 |
| Environmental Facilities Corporation | 2008 | 20,161,142 | April, 2038 | 4.270 | 18,695,000 |
| Refunding | 2011 | 5,025,000 | August, 2021 | 2.000 - 3.000 | 4,975,000 |
| | | | | | <u>\$ 37,014,999</u> |

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011**Note 3 - Detailed Notes on All Funds (Continued)**

Interest expenditures of \$1,200,541 were recorded in the fund financial statements in the Debt Service Fund.

Interest expense of \$1,237,859 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 2030.

Interest expenditures/expense of \$73,247 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, 2011 including interest payments of \$18,169,201 are as follows:

| Year Ending December 31, | Bonds | | Loans | | Total | |
|--------------------------------|----------------------|----------------------|---------------------|-------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 2,135,000 | \$ 1,491,840 | \$ 93,741 | \$ 23,521 | \$ 2,228,741 | \$ 1,515,361 |
| 2013 | 1,905,000 | 1,419,024 | 134,885 | 21,561 | 2,039,885 | 1,440,585 |
| 2014 | 1,960,000 | 1,352,087 | 140,034 | 19,291 | 2,100,034 | 1,371,378 |
| 2015 | 2,019,999 | 1,280,319 | 140,187 | 17,033 | 2,160,186 | 1,297,352 |
| 2016 | 2,090,001 | 1,199,363 | 140,345 | 14,692 | 2,230,346 | 1,214,055 |
| 2017-2021 | 8,925,000 | 4,818,573 | 746,262 | 35,187 | 9,671,262 | 4,853,760 |
| 2022-2026 | 5,815,000 | 3,294,545 | 496,000 | 1,026 | 6,311,000 | 3,295,571 |
| 2027-2031 | 4,984,999 | 2,081,452 | 182,000 | 1,512 | 5,166,999 | 2,082,964 |
| 2032-2036 | 5,165,000 | 1,011,175 | - | - | 5,165,000 | 1,011,175 |
| 2037-2038 | 2,015,000 | 87,000 | - | - | 2,015,000 | 87,000 |
| | <u>\$ 37,014,999</u> | <u>\$ 18,035,378</u> | <u>\$ 2,073,454</u> | <u>\$ 133,823</u> | <u>\$ 39,088,453</u> | <u>\$ 18,169,201</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.

Advance Refunding

During the 2011 fiscal year, the City issued \$5,025,000 in serial bonds with interest rates ranging from 2.0% to 3.0%, depending on maturity. The proceeds were used to advance refund \$4,870,000 of 2001 General, Water and Sewer Purposes serial bonds bearing interest at rates ranging from 4.5% to 4.75%. The net proceeds of \$5,030,779 (net of \$131,513 re-offering premium and after payment of \$125,734 in underwriting fees and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited into an irrevocable trust

Note 3 - Detailed Notes on All Funds (Continued)

with an escrow agent to provide for all future debt service payments on the 2001 General, Water and Sewer Purposes serial bonds. As a result, the 2001 General, Water and Sewer Purposes serial bonds are considered defeased and the liability for that serial bond has been removed from the Statement of Net Assets. The premium received was \$131,513. The reacquisition price exceeded the net carrying amount of the old debt by \$160,779. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt.

The City refunded the 2001 General, Water and Sewer Purposes serial bonds to reduce its total debt service payments by \$472,700 and to obtain a net present value economic gain of \$424,740.

At December 31, 2011, the full amount of bonds outstanding 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.

Note 3 - Detailed Notes on All Funds (Continued)

An analysis of the unpaid claims liability is as follows:

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Balance - Beginning of Year | \$ 3,081,949 | \$ 2,399,420 |
| Provision for Claims and Claims Adjustment Expenses | 1,266,831 | 1,237,842 |
| Claims and Claims Adjustment Expenses Paid | <u>(593,916)</u> | <u>(555,313)</u> |
| Balance - End of Year | <u>\$ 3,754,864</u> | <u>\$ 3,081,949</u> |
| Due Within One Year | <u>\$ 695,000</u> | <u>\$ 695,000</u> |

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 \$78,551 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.

Note 3 - Detailed Notes on All Funds (Continued)

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 December 31,</u> | <u>Health Care Cost Trend Rates</u> |
|------------------------------------|---|
| 2012 | 9.50 % |
| 2013 | 9.00 |
| 2014 | 8.50 |
| 2015 | 8.00 |
| 2016 | 7.50 |
| 2017 | 7.00 |
| 2018 | 6.50 |
| 2019 | 6.00 |
| 2020 | 5.50 |
| 2021+ | 5.00 |

The amortization basis is the level percentage of payroll basis with an open amortization approach with 26 years remaining in the amortization period. There is no inflation rate assumed which results in a default to level dollar amortization method. The actuarial assumptions included a 4.5% investment rate of return. 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, 2011 was as follows:

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

Note 3 - Detailed Notes on All Funds (Continued)

| | |
|---|----------------------|
| Amortization Component: | |
| Actuarial Accrued Liability as of January 1, 2011 | \$ 56,500,000 |
| Assets at Market Value | <u>-</u> |
| Unfunded Actuarial Accrued Liability | <u>\$ 56,500,000</u> |
| Funded Ratio | <u>0.00%</u> |
| Covered Payroll (active plan members) | <u>\$ 16,930,000</u> |
| UAAL as a Percentage of Covered Payroll | <u>333.73%</u> |
| Annual Required Contribution | \$ 5,090,000 |
| Interest on Net OPEB Obligation | 310,000 |
| Adjustment to Annual Required Contribution | <u>(400,000)</u> |
| Annual OPEB Cost | 5,000,000 |
| Contributions Made | <u>(1,780,000)</u> |
| Increase in Net OPEB Obligation | 3,220,000 |
| Net OPEB Obligation - Beginning of Year | <u>6,870,000</u> |
| Net OPEB Obligation - End of Year | <u>\$ 10,090,000</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> |
|---|-----------------------------|---|--------------------------------|
| 2011 | \$ 5,000,000 | 35.60 % | \$ 10,090,000 |
| 2010 | 4,770,000 | 32.90 | 6,870,000 |
| 2009 | 3,180,000 | 42.77 | 3,670,000 |

The schedule of funding progress for the OPEB plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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:

Note 3 - Detailed Notes on All Funds (Continued)

| Transfers Out | Transfers In | | | Total |
|----------------------------|---------------------|-----------------------|------------------------------|---------------------|
| | General Fund | Capital Projects Fund | Non-Major Governmental Funds | |
| General Fund | \$ - | \$ 35,000 | \$ 997,498 | \$ 1,032,498 |
| Community Development Fund | - | - | 207,247 | 207,247 |
| Water Fund | 930,821 | 489,744 | 1,774,581 | 3,195,146 |
| Sewer Fund | 587,123 | 625,000 | 648,464 | 1,860,587 |
| | <u>\$ 1,517,944</u> | <u>\$ 1,149,744</u> | <u>\$ 3,627,790</u> | <u>\$ 6,295,478</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.

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 Purposes - the component of net assets that reports the difference between assets and liabilities of certain programs with constraints placed on their use by either external parties and/or statute.

Note 3 - Detailed Notes on All Funds (Continued)

Restricted for Community Development Projects - the component of net assets that reports the difference between assets and liabilities of the Community Development Funds with constraints placed on their use by the United States Department of Housing and Urban Development.

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

Restricted for Sewer - 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".

NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2011

Note 3 - Detailed Notes on All Funds (Continued)

M. Fund Balances

| | 2011 | | | | | | | | | | 2010 | | | | | | | | | |
|-------------------------|--------------|----------------------------|--------------|--------------|-----------------------|------------------------------|----------------|--------------|----------------------------|--------------|--------------|-----------------------|------------------------------|----------------|--|--|--|--|--|--|
| | General Fund | Community Development Fund | Water Fund | Sewer Fund | Capital Projects Fund | Non-Major Governmental Funds | Total | General Fund | Community Development Fund | Water Fund | Sewer Fund | Capital Projects Fund | Non-Major Governmental Funds | Total | | | | | | |
| Nonspendable - | | | | | | | | | | | | | | | | | | | | |
| Prepaid expenditures | \$ 1,219,739 | \$ - | \$ 63,501 | \$ 55,888 | \$ - | \$ - | \$ 1,339,128 | \$ 507,704 | \$ - | \$ 24,667 | \$ 20,018 | \$ - | \$ - | \$ 552,389 | | | | | | |
| Restricted: | | | | | | | | | | | | | | | | | | | | |
| Tax stabilization | 8,314 | - | - | - | - | - | 8,314 | 8,305 | - | - | - | - | - | 8,305 | | | | | | |
| Unemployment benefits | 85,975 | - | - | - | - | - | 85,975 | 85,547 | - | - | - | - | - | 85,547 | | | | | | |
| Future capital projects | 40,000 | - | 150,000 | - | - | - | 190,000 | 40,000 | - | 150,000 | - | - | - | 190,000 | | | | | | |
| Trusts | - | - | - | - | - | 56,586 | 56,586 | - | - | - | - | - | 37,955 | 37,955 | | | | | | |
| Debt service | - | - | - | - | - | 2,751,541 | 2,751,541 | - | - | - | - | - | 2,530,121 | 2,530,121 | | | | | | |
| Total Restricted | 134,289 | - | 150,000 | - | - | 2,808,127 | 3,092,416 | 133,852 | - | 150,000 | - | - | 2,568,076 | 2,851,928 | | | | | | |
| Assigned: | | | | | | | | | | | | | | | | | | | | |
| Theater purposes | - | - | 1,946,753 | - | - | - | 1,946,753 | 5,654 | - | 2,526,480 | 2,081,912 | - | - | 5,417,271 | | | | | | |
| Major Funds | - | 340,967 | - | 2,641,157 | - | - | 4,928,877 | 5,654 | 808,879 | 2,526,480 | 2,081,912 | - | - | 5,422,925 | | | | | | |
| Total Assigned | - | 340,967 | 1,946,753 | 2,641,157 | - | - | 4,928,877 | 5,654 | 808,879 | 2,526,480 | 2,081,912 | - | - | 5,422,925 | | | | | | |
| Unassigned | 4,973,812 | - | - | - | (19,538,166) | (6,420) | (14,570,774) | 4,095,381 | - | - | - | (18,576,746) | (3,751) | (14,485,116) | | | | | | |
| Total Fund Balances | \$ 6,927,840 | \$ 340,967 | \$ 2,160,254 | \$ 2,697,045 | \$ (19,538,166) | \$ 2,801,707 | \$ (5,210,353) | \$ 4,742,591 | \$ 808,879 | \$ 2,701,147 | \$ 2,101,930 | \$ (18,576,746) | \$ 2,564,325 | \$ (5,657,874) | | | | | | |

Note 3 - Detailed Notes on All Funds (Continued)

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.

Prepaid Expenditures has been established to account for payments made in advance. The amount is classified as nonspendable to indicate that funds are not "available" for appropriation or expenditure even though they are a component of current assets.

Trusts have been classified as restricted to set aside funds in accordance with the terms of the specific trust funds.

Unassigned fund balance in the General Fund represents amounts not classified as nonspendable, restricted, committed or assigned. Unassigned fund balance in the Capital Projects Fund represents the deficit balance in the projects. Unassigned fund balance in the Golden Area fund represents the total fund deficit.

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.

A former employee of the City filed a Petition in the Supreme Court, Orange County seeking annulment of the City's decision to terminate their employment and to reinstate with back pay. On February 15, 2011, a decision and Order was issued dismissing the Petition in its entirety. A Notice of Appeals was filed with New York State Appellate Division, Second Judicial Department on March 7, 2012, but yet has to perfect appeal. Should the former employee be successful in any appeal, they may be entitled to back pay from the date of termination.

The Civil Service Employee Association ("CSEA") on March 13, 2012 on behalf of a former employee filed a Demand for Arbitration regarding the former employee's termination from the City. In its Demand, the CSEA seeks reinstatement and back pay. On April 2, 2012, they filed a Petition in the Orange County, Supreme Court seeking to stay the arbitration proceeding. A decision has not yet been issued by the Court. Should the CSEA be successful in the dispute, the former employee may be entitled to reinstatement and back pay from the date of termination.

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

On June 21, 2012, an employee of the City of Middletown filed a Complaint against the City with the U.S. Equal Employment Opportunity Commission. In that Complaint, the employee alleges claims of sexual harassment and retaliation against City employees. No monetary demands have been made and no action is required by the City at the present time. Should the employee become successful in these claims, they may be entitled to compensatory and/or punitive damages against the City.

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. 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.

Note 5 - Other Matters

On June 24, 2011, the Governor signed Chapter 97 of the Laws of 2011 ("Tax Levy Limitation Law"). This applies to all local governments.

The Tax Levy Limitation Law restricts the amount of real property taxes that may be levied by a City in a particular year, beginning with the 2012 year. It expires on June 16, 2016.

The following is a brief summary of certain relevant provisions of the Tax Levy Limitation Law. The summary is not complete and the full text of the Tax Levy Limitation Law should be read in order to understand the details and implementations thereof.

Note 5 - Other Matters (Continued)

The Tax Levy Limitation Law imposes a limitation on increases in the real property tax levy, subject to certain exceptions. The Tax Levy Limitation Law permits the City to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor," which is the lesser of one and two-one hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by (ii) the average of the National Consumer Price Indexes determined by the United States with the result expressed as a decimal to four places. The City is required to calculate its tax levy limit for the upcoming year in accordance with the provision above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The Tax Levy Limitation Law sets forth certain exclusions to the real property tax levy limitation of the City, including exclusions for certain portions of the expenditures for retirement system contributions and tort judgments payable by the City. The City Council may adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the City Council first enacts, by a vote of at least sixty percent of the total voting power of the City Council, a local law to override such limit for such coming fiscal year.

Note 6 - Subsequent Events

The City, on February 22, 2012 issued bond anticipation notes in the amount of \$5,496,500. The notes are due on February 23, 2013, with interest at 1.50%. The proceeds were used to renew portions of bond anticipation notes outstanding at December 31, 2011.

The City, on February 22, 2012 issued bond anticipation notes in the amount of \$5,496,500. The notes are due on July 31, 2012, with interest at .75%. The proceeds were used to renew portions of bond anticipation notes outstanding at December 31, 2011.

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, 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 |
| January 1, 2011 | - | 56,500,000 | 56,500,000 | - | 16,930,000 | 333.73 |

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash: | | |
| Demand deposits | \$ 3,298,804 | \$ 3,684,764 |
| Petty cash | 850 | 850 |
| | <u>3,299,654</u> | <u>3,685,614</u> |
| Taxes Receivable: | | |
| City and County taxes | 1,327,090 | 1,519,793 |
| School district taxes | 967,599 | 975,964 |
| Tax sale certificates | 864,770 | 1,641,993 |
| Property acquired for taxes | 1,412,098 | 526,018 |
| | <u>4,571,557</u> | <u>4,663,768</u> |
| Allowance for uncollectible taxes | <u>(2,238,343)</u> | <u>(2,096,312)</u> |
| | <u>2,333,214</u> | <u>2,567,456</u> |
| Other Receivables: | | |
| Mortgages | 87,743 | 98,645 |
| Accounts | 484,600 | 550,356 |
| State and Federal aid | 82,601 | 118,113 |
| Due from other governments | 2,450,487 | 2,261,200 |
| Due from other funds | 1,978,132 | 1,141,505 |
| | <u>5,083,563</u> | <u>4,169,819</u> |
| Prepaid Expenditures | <u>1,219,739</u> | <u>507,704</u> |
| Total Assets | <u>\$ 11,936,170</u> | <u>\$ 10,930,593</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 1,539,671 | \$ 660,806 |
| Accrued liabilities | 1,578,929 | 743,827 |
| Due to State and Federal governments | 17,269 | 15,134 |
| Due to County for tax levy | 193,404 | 289,177 |
| Due to school district | 1,445,904 | 1,719,286 |
| Due to other funds | 29,648 | 1,213,861 |
| Deferred revenues | 87,743 | 98,645 |
| Deferred tax revenues | 715,762 | 1,447,266 |
| Total Liabilities | <u>5,608,330</u> | <u>6,188,002</u> |
| Fund Balance: | | |
| Nonspendable | 1,219,739 | 507,704 |
| Restricted | 134,289 | 133,852 |
| Assigned | - | 5,654 |
| Unassigned | <u>4,973,812</u> | <u>4,095,381</u> |
| Total Fund Balance | <u>6,327,840</u> | <u>4,742,591</u> |
| Total Liabilities and Fund Balance | <u>\$ 11,936,170</u> | <u>\$ 10,930,593</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, 2011 AND 2010

| | 2011 | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|---------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| Real property taxes | \$ 17,002,828 | \$ 17,002,828 | \$ 17,316,884 | \$ 314,056 |
| Other tax items | 542,000 | 542,000 | 600,021 | 58,021 |
| Non-property taxes | 8,483,000 | 8,483,000 | 9,221,848 | 738,848 |
| Departmental income | 855,246 | 881,729 | 753,727 | (128,002) |
| Intergovernmental charges | 163,500 | 206,292 | 265,499 | 59,207 |
| Use of money and property | 239,905 | 239,905 | 287,054 | 47,149 |
| Licenses and permits | 174,250 | 174,250 | 241,161 | 66,911 |
| Fines and forfeitures | 253,500 | 253,500 | 378,033 | 124,533 |
| Sale of property and compensation for loss | 80,500 | 80,500 | 80,814 | 314 |
| State aid | 3,196,784 | 3,301,484 | 3,073,889 | (227,595) |
| Federal aid | 115,500 | 316,864 | 384,363 | 67,499 |
| Miscellaneous | 110,001 | 247,523 | 291,636 | 44,113 |
| Total Revenues | 31,217,014 | 31,729,875 | 32,894,929 | 1,165,054 |
| Expenditures: | | | | |
| Current: | | | | |
| General government support | 4,649,741 | 5,601,645 | 5,013,982 | 587,663 |
| Public safety | 10,779,601 | 10,906,715 | 10,722,631 | 184,084 |
| Transportation | 1,988,861 | 2,078,397 | 1,991,146 | 87,251 |
| Economic opportunity and development | 296,635 | 296,714 | 274,550 | 22,164 |
| Culture and recreation | 1,402,067 | 1,616,264 | 1,495,845 | 120,419 |
| Home and community services | 2,148,856 | 2,168,844 | 2,075,546 | 93,298 |
| Employee benefits | 10,450,355 | 10,554,692 | 10,337,888 | 216,804 |
| Debt service - Interest | 80,000 | 45,000 | 34,850 | 10,150 |
| Total Expenditures | 31,796,116 | 33,268,271 | 31,946,438 | 1,321,833 |
| Excess (Deficiency) of Revenues Over Expenditures | (579,102) | (1,538,396) | 948,491 | 2,486,887 |
| Other Financing Sources (Uses): | | | | |
| Insurance recoveries | 65,000 | 65,000 | 140,410 | 75,410 |
| Sale of real property | 15,000 | 15,000 | 10,902 | (4,098) |
| Transfers in | 1,517,944 | 1,517,944 | 1,517,944 | - |
| Transfers out | (1,018,842) | (1,053,842) | (1,032,498) | 21,344 |
| Total Other Financing Sources (Uses) | 579,102 | 544,102 | 636,758 | 92,656 |
| Net Change in Fund Balance | - | (994,294) | 1,585,249 | 2,579,543 |
| Fund Balance - Beginning of Year | - | 994,294 | 4,742,591 | 3,748,297 |
| Fund Balance - End of Year | \$ - | \$ - | \$ 6,327,840 | \$ 6,327,840 |

2010

| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------|--------------------|---------------------|---|
| \$ 15,707,245 | \$ 15,707,245 | \$ 14,939,882 | \$ (767,363) |
| 581,940 | 581,940 | 603,316 | 21,376 |
| 8,335,284 | 8,335,284 | 8,640,649 | 305,365 |
| 1,025,764 | 1,025,764 | 1,004,772 | (20,992) |
| 419,466 | 431,451 | 416,180 | (15,271) |
| 366,452 | 366,452 | 267,604 | (98,848) |
| 157,750 | 157,750 | 487,098 | 329,348 |
| 253,500 | 253,500 | 291,099 | 37,599 |
| 5,500 | 5,500 | 91,135 | 85,635 |
| 3,580,333 | 3,635,069 | 3,340,112 | (294,957) |
| - | 12,100 | 147,372 | 135,272 |
| 184,025 | 242,775 | 264,156 | 21,381 |
| <u>30,617,259</u> | <u>30,754,830</u> | <u>30,493,375</u> | <u>(261,455)</u> |
| 3,728,574 | 4,741,357 | 4,521,327 | 220,030 |
| 10,899,456 | 10,995,313 | 10,823,629 | 171,684 |
| 1,860,844 | 2,209,911 | 1,915,403 | 294,508 |
| 361,922 | 361,922 | 257,517 | 104,405 |
| 1,741,293 | 1,757,028 | 1,722,637 | 34,391 |
| 2,167,986 | 2,095,044 | 1,906,050 | 188,994 |
| 9,175,021 | 8,699,713 | 8,676,438 | 23,275 |
| 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>647,163</u> | <u>(140,458)</u> | <u>646,589</u> | <u>787,047</u> |
| 65,000 | 65,000 | 299,226 | 234,226 |
| - | - | 21,011 | 21,011 |
| 454,698 | 506,611 | 506,611 | - |
| <u>(1,166,861)</u> | <u>(1,167,253)</u> | <u>(1,167,253)</u> | <u>-</u> |
| <u>(647,163)</u> | <u>(595,642)</u> | <u>(340,405)</u> | <u>255,237</u> |
| - | (736,100) | 306,184 | 1,042,284 |
| - | 736,100 | 4,436,407 | 3,700,307 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,742,591</u> | <u>\$ 4,742,591</u> |

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND
 SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES COMPARED TO BUDGET
 YEAR ENDED DECEMBER 31, 2011
 (With Comparative Actuals for 2010)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | 2010 Actual |
|---|-----------------|---------------|---------------|--|---------------|
| REAL PROPERTY TAXES | \$ 17,002,828 | \$ 17,002,828 | \$ 17,316,884 | \$ 314,056 | \$ 14,939,882 |
| OTHER TAX ITEMS | | | | | |
| Payments in lieu of taxes | 332,000 | 332,000 | 342,441 | 10,441 | 323,900 |
| Interest and penalties - Taxes | 210,000 | 210,000 | 257,580 | 47,580 | 279,416 |
| | 542,000 | 542,000 | 600,021 | 58,021 | 603,316 |
| NON-PROPERTY TAXES | | | | | |
| Non-property tax distribution from County | 7,703,000 | 7,703,000 | 8,372,684 | 669,684 | 7,819,413 |
| Franchise fees - Cable TV | 350,000 | 350,000 | 377,673 | 27,673 | 374,698 |
| Utilities gross receipts taxes | 430,000 | 430,000 | 471,491 | 41,491 | 446,538 |
| | 8,483,000 | 8,483,000 | 9,221,848 | 738,848 | 8,640,649 |
| DEPARTMENTAL INCOME | | | | | |
| Treasurer | 90,000 | 90,000 | 80,265 | (9,735) | 97,055 |
| City Clerk fees | 4,000 | 4,000 | 4,438 | 438 | 4,470 |
| Tax sale advertising | 40,000 | 40,000 | 24,733 | (15,267) | 33,906 |
| Police Department fees | 5,000 | 5,000 | 3,140 | (1,860) | 3,615 |
| Fire Department fees | 1,500 | 1,500 | - | (1,500) | 355 |
| Vital statistics | 50,000 | 50,000 | 44,988 | (5,012) | 57,501 |
| Public works service fee | 85,000 | 85,000 | 125,615 | 40,615 | 98,123 |
| Building department fees | 166,000 | 166,000 | 189,360 | 23,360 | 208,013 |
| Parks and recreation fees | 23,000 | 23,000 | 16,750 | (6,250) | 17,895 |
| Pool fees | 10,000 | 10,000 | 13,864 | 3,864 | 11,733 |
| Tennis fees | 750 | 750 | - | (750) | 475 |
| Day camp fees | 86,000 | 86,000 | 78,247 | (7,753) | 88,004 |
| Special recreation program fees | 28,000 | 38,000 | 34,511 | (3,489) | 29,173 |
| Zoning board fees | 2,500 | 2,500 | 600 | (1,900) | 2,400 |
| Planning Board fees | 20,000 | 20,000 | 35,875 | 15,875 | 16,208 |
| Tax collection fees | 120,000 | 120,000 | 35,415 | (84,585) | 116,797 |
| Paramount Theatre | 52,125 | 68,608 | 19,926 | (48,682) | 163,125 |
| Other departmental fees | 71,371 | 71,371 | 46,000 | (25,371) | 55,924 |
| | 855,246 | 881,729 | 753,727 | (128,002) | 1,004,772 |

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| INTERGOVERNMENTAL CHARGES | | | | | |
| Charges for services to other governments | 163,500 | 206,292 | 265,499 | 59,207 | 416,180 |
| USE OF MONEY AND PROPERTY | | | | | |
| Earnings on investments | 13,000 | 13,000 | 11,094 | (1,906) | 21,410 |
| Rentals of real property | 226,805 | 226,805 | 275,768 | 48,963 | 245,930 |
| Commissions | 100 | 100 | 192 | 92 | 264 |
| | 239,905 | 239,905 | 287,054 | 47,149 | 267,604 |
| LICENSES AND PERMITS | | | | | |
| Business and occupational licenses | 45,000 | 45,000 | 52,077 | 7,077 | 165,745 |
| Bingo licenses | 3,500 | 3,500 | 2,874 | (626) | 2,913 |
| Dog licenses | 6,250 | 6,250 | 12,635 | 6,385 | 5,327 |
| Other licenses | 3,500 | 3,500 | 3,658 | 158 | 5,813 |
| Building permits | 110,000 | 110,000 | 163,964 | 53,964 | 302,880 |
| Other permits | 6,000 | 6,000 | 5,953 | (47) | 4,420 |
| | 174,250 | 174,250 | 241,161 | 66,911 | 487,098 |
| FINES AND FORFEITURES | | | | | |
| Fines and forfeited bail | 250,000 | 250,000 | 375,308 | 125,308 | 286,949 |
| Dog pound fees | 3,500 | 3,500 | 2,725 | (775) | 4,150 |
| | 253,500 | 253,500 | 378,033 | 124,533 | 291,099 |
| SALE OF PROPERTY AND COMPENSATION FOR LOSS | | | | | |
| Sale of equipment | - | - | - | - | 125 |
| Sale of scrap | 5,500 | 5,500 | 13,978 | 8,478 | 193 |
| Sale of timber | 75,000 | 75,000 | 66,836 | (8,164) | 90,817 |
| | 80,500 | 80,500 | 80,814 | 314 | 91,135 |
| STATE AID | | | | | |
| Per capita | 2,800,000 | 2,800,000 | 2,705,826 | (94,174) | 2,761,047 |
| Mortgage tax | 250,000 | 250,000 | 229,822 | (20,178) | 328,389 |
| Youth programs | 22,534 | 30,534 | 23,946 | (6,588) | 5,869 |
| Police - DWI | 250 | 250 | 8,061 | 7,811 | 5,180 |
| Police - Crime | - | - | - | - | 49,928 |
| Court facilities aid | 40,000 | 40,000 | 41,331 | 1,331 | 38,865 |
| Traffic enforcement grant | - | 10,000 | 10,000 | - | - |
| Fire bonacic grant | 10,000 | 10,000 | - | (10,000) | - |
| Buckle up NY | - | 4,800 | 4,553 | (247) | 4,800 |
| Impact grant | 74,000 | 155,900 | 50,350 | (105,550) | 143,127 |
| Other | - | - | - | - | 2,907 |
| | 3,196,784 | 3,301,484 | 3,073,889 | (227,595) | 3,340,112 |

(Continued)

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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, 2011
 (With Comparative Actuals for 2010)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | 2010 Actual |
|---|----------------------|----------------------|----------------------|--|----------------------|
| FEDERAL AID | | | | | |
| Police block grant | \$ 3,000 | \$ 3,000 | \$ 24,997 | \$ 21,997 | \$ 5,787 |
| Byrne Justice Assistance Grant | - | 62,240 | 62,240 | - | - |
| Energy Efficiency Conservation Block Grant | - | - | 64,723 | 64,723 | - |
| Drug Free Communities Support Grant | 112,500 | 251,624 | 232,403 | (19,221) | 141,585 |
| | <u>115,500</u> | <u>316,864</u> | <u>384,363</u> | <u>67,499</u> | <u>147,372</u> |
| MISCELLANEOUS | | | | | |
| Refund of prior year's expenditures | 75,001 | 75,005 | 83,357 | 8,352 | 178,070 |
| Urban renewal grant recycle | - | - | 30,000 | 30,000 | - |
| Teen Violence | 10,000 | 10,000 | 20,896 | 10,896 | 14,000 |
| Safe Schools | - | 40,795 | 59,011 | 18,216 | - |
| Other | 25,000 | 121,723 | 98,372 | (23,351) | 72,086 |
| | <u>110,001</u> | <u>247,523</u> | <u>291,636</u> | <u>44,113</u> | <u>264,156</u> |
| TOTAL REVENUES | <u>31,217,014</u> | <u>31,729,875</u> | <u>32,894,929</u> | <u>1,165,054</u> | <u>30,493,375</u> |
| OTHER FINANCING SOURCES | | | | | |
| Insurance recoveries | 65,000 | 65,000 | 140,410 | 75,410 | 299,226 |
| Sale of real property | 15,000 | 15,000 | 10,902 | (4,098) | 21,011 |
| Transfers in: | | | | | |
| Water Fund | 930,821 | 930,821 | 930,821 | - | 279,262 |
| Sewer Fund | 587,123 | 587,123 | 587,123 | - | 227,349 |
| | <u>1,597,944</u> | <u>1,597,944</u> | <u>1,669,256</u> | <u>71,312</u> | <u>826,848</u> |
| TOTAL OTHER FINANCING SOURCES | | | | | |
| | | | | | |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | <u>\$ 32,814,958</u> | <u>\$ 33,327,819</u> | <u>\$ 34,564,185</u> | <u>\$ 1,236,366</u> | <u>\$ 31,320,223</u> |

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES COMPARED TO BUDGET
 YEAR ENDED DECEMBER 31, 2011
 (With Comparative Actuals for 2010)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | 2010 Actual |
|---|-----------------|--------------|------------|--|-------------|
| GENERAL GOVERNMENT SUPPORT | | | | | |
| Common Council | \$ 260,840 | \$ 260,840 | \$ 242,365 | \$ 18,475 | \$ 224,694 |
| Board of Estimate and Apportionment | 200 | 200 | - | 200 | - |
| Mayor | 133,120 | 133,120 | 127,530 | 5,590 | 113,403 |
| Finance | 527,179 | 528,379 | 525,819 | 2,560 | 400,792 |
| Data processing | 10,000 | 10,871 | 10,871 | - | 19,100 |
| Assessor | 302,247 | 302,247 | 285,246 | 17,001 | 275,425 |
| Costs of tax sale | 20,000 | 38,777 | 29,977 | 8,800 | 19,579 |
| Corporation Counsel | 309,471 | 612,484 | 554,532 | 57,952 | 580,821 |
| Bond and note issuance costs | 1,000 | 1,000 | - | 1,000 | 4,249 |
| Civil service | 99,367 | 99,367 | 96,847 | 2,520 | 88,486 |
| Engineer | 10,000 | 10,000 | 9,332 | 668 | 7,000 |
| Elections | 82,000 | 82,000 | 39,426 | 42,574 | 51,512 |
| Board of Ethics | 250 | 250 | - | 250 | - |
| Public works administration | 807,889 | 807,889 | 762,488 | 45,401 | 753,345 |
| Maintenance department | 557,051 | 657,933 | 638,756 | 19,177 | 590,594 |
| Purchase of land | 10,000 | 10,000 | 225 | 9,775 | 95,117 |
| Liability insurance | 812,500 | 768,765 | 726,137 | 42,628 | 750,037 |
| Mayor's conference dues | 6,600 | 6,600 | 6,506 | 94 | 7,186 |
| Judgments and claims | 100,000 | 198,350 | 173,350 | 25,000 | 30,000 |
| Refunds and cancellations of taxes | 300,000 | 362,006 | 362,006 | - | 396,629 |
| Taxes on City property | - | 43,735 | 43,735 | - | - |
| Appraisal of property | 10,000 | 10,000 | - | 10,000 | 1,800 |
| Audit and accounting services | 29,000 | 29,000 | 29,000 | - | 62,685 |
| Metropolitan Commuter Transit Association tax | 49,083 | 52,832 | 52,832 | - | 48,873 |
| Disaster assistance | - | 450,000 | 172,002 | 277,998 | - |
| Labor negotiations | 25,000 | 125,000 | 125,000 | - | - |
| Contingent fund | 186,944 | - | - | - | - |
| | 4,649,741 | 5,601,645 | 5,013,982 | 587,663 | 4,521,327 |
| PUBLIC SAFETY | | | | | |
| Police Department | 7,717,600 | 7,844,714 | 7,809,203 | 35,511 | 7,861,882 |
| Fire Department | 3,044,411 | 3,044,411 | 2,896,344 | 148,067 | 2,937,511 |
| Public safety programs | 17,590 | 17,590 | 17,084 | 506 | 24,236 |
| | 10,779,601 | 10,906,715 | 10,722,631 | 184,084 | 10,823,629 |

TRANSPORTATION

| | | | | | |
|----------------------|------------------|------------------|------------------|---------------|------------------|
| Street maintenance | 1,233,197 | 1,258,150 | 1,191,725 | 66,425 | 1,087,184 |
| Snow and ice control | 418,600 | 428,600 | 407,774 | 20,826 | 408,189 |
| Street lighting | 337,064 | 391,647 | 391,647 | - | 420,030 |
| | <u>1,988,861</u> | <u>2,078,397</u> | <u>1,991,146</u> | <u>87,251</u> | <u>1,915,403</u> |

ECONOMIC OPPORTUNITY AND DEVELOPMENT

| | | | | | |
|---------------------------|----------------|----------------|----------------|---------------|----------------|
| Economic development | 35,793 | 35,872 | 35,872 | - | 34,767 |
| Veterans' Service Agency | 1,000 | 1,000 | 1,000 | - | 1,000 |
| Senior citizen's programs | 259,842 | 259,842 | 237,678 | 22,164 | 221,750 |
| | <u>296,635</u> | <u>296,714</u> | <u>274,550</u> | <u>22,164</u> | <u>257,517</u> |

CULTURE AND RECREATION

| | | | | | |
|-----------------------------|------------------|------------------|------------------|----------------|------------------|
| General recreation | 501,583 | 544,517 | 537,332 | 7,185 | 579,673 |
| Parks | 351,350 | 366,276 | 365,864 | 412 | 329,169 |
| Playgrounds | 44,100 | 49,532 | 48,846 | 686 | 48,859 |
| Swimming pools | 73,750 | 69,795 | 64,619 | 5,176 | 64,205 |
| Community center | 14,500 | 8,500 | 8,408 | 92 | 11,136 |
| Day camp | 72,000 | 67,430 | 65,608 | 1,822 | 65,904 |
| Tennis program | 750 | 750 | - | 750 | 475 |
| Special programs | 338,534 | 505,964 | 401,668 | 104,296 | 423,860 |
| Historical society | 2,500 | 2,500 | 2,500 | - | 2,500 |
| Celebration of Memorial Day | 1,000 | 1,000 | 1,000 | - | 1,000 |
| Paramount theatre | - | - | - | - | 193,856 |
| Band concerts | 2,000 | - | - | - | 2,000 |
| | <u>1,402,067</u> | <u>1,616,264</u> | <u>1,495,845</u> | <u>120,419</u> | <u>1,722,637</u> |

HOME AND COMMUNITY SERVICES

| | | | | | |
|-----------------------------|------------------|------------------|------------------|---------------|------------------|
| Zoning Board of Appeals | 5,200 | 5,200 | 3,334 | 1,866 | 3,655 |
| Planning Board | 5,200 | 5,200 | 4,224 | 976 | 4,216 |
| Human Rights Commission | 100 | 100 | - | 100 | - |
| Academy Avenue School | 85,760 | 88,648 | 88,648 | - | 98,175 |
| Waste collection | 1,988,705 | 2,005,805 | 1,932,515 | 73,290 | 1,765,136 |
| Street cleaning | 26,420 | 26,420 | 20,639 | 5,781 | 23,378 |
| Municipal housing authority | 100 | 100 | - | 100 | - |
| Demolition of buildings | 10,000 | 10,000 | - | 10,000 | - |
| Nutrition for elderly | 27,371 | 27,371 | 26,186 | 1,185 | 11,490 |
| | <u>2,148,856</u> | <u>2,168,844</u> | <u>2,075,546</u> | <u>93,298</u> | <u>1,906,050</u> |

(Continued)

CITY OF MIDDLETOWN, NEW YORK

GENERAL FUND
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES COMPARED TO BUDGET (Continued)
 YEAR ENDED DECEMBER 31, 2011
 (With Comparative Actuals for 2010)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | 2010 Actual |
|--|----------------------|----------------------|----------------------|--|----------------------|
| EMPLOYEE BENEFITS | | | | | |
| State retirement | \$ 833,943 | \$ 733,943 | \$ 731,140 | \$ 2,803 | \$ 513,114 |
| Police and fire retirement | 1,729,091 | 1,885,276 | 1,885,275 | 1 | 1,250,849 |
| Social security | 1,070,862 | 1,127,393 | 1,127,393 | - | 1,041,017 |
| Workers' compensation benefits | 2,160,863 | 2,406,948 | 2,406,948 | - | 1,548,875 |
| Health, dental and optical insurance | 4,436,300 | 4,181,836 | 4,024,795 | 157,041 | 4,079,827 |
| Welfare fund | 80,000 | 80,000 | 70,026 | 9,974 | 74,120 |
| Unused sick leave | 75,000 | 75,000 | 37,473 | 37,527 | 95,175 |
| Unemployment benefits | 43,296 | 43,296 | 41,848 | 1,448 | 60,347 |
| Disability insurance | 15,000 | 15,000 | 12,990 | 2,010 | 13,114 |
| Meal allowance | 6,000 | 6,000 | - | 6,000 | - |
| | <u>10,450,355</u> | <u>10,554,692</u> | <u>10,337,888</u> | <u>216,804</u> | <u>8,676,438</u> |
| DEBT SERVICE | | | | | |
| Interest - Bond anticipation notes | 80,000 | 45,000 | 34,850 | 10,150 | 23,785 |
| TOTAL EXPENDITURES | <u>31,796,116</u> | <u>33,268,271</u> | <u>31,946,438</u> | <u>1,321,833</u> | <u>29,846,786</u> |
| OTHER FINANCING USES | | | | | |
| Transfers out: | | | | | |
| Capital Projects Fund | - | 35,000 | 35,000 | - | - |
| Debt Service Fund | 1,018,842 | 1,018,842 | 997,498 | 21,344 | 1,167,253 |
| TOTAL OTHER FINANCING USES | <u>1,018,842</u> | <u>1,053,842</u> | <u>1,032,498</u> | <u>21,344</u> | <u>1,167,253</u> |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | <u>\$ 32,814,958</u> | <u>\$ 34,322,113</u> | <u>\$ 32,978,936</u> | <u>\$ 1,343,177</u> | <u>\$ 31,014,039</u> |

CITY OF MIDDLETOWN, NEW YORK

COMMUNITY DEVELOPMENT FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash - Demand deposits | \$ 545,754 | \$ 915,798 |
| Receivables: | | |
| Accounts | 11,672 | 5,300 |
| Loans receivable, net of allowance for uncollectible amounts of \$814,723 in 2011 and \$691,782 in 2010 | 3,861,138 | 3,474,051 |
| State and Federal aid | 49,690 | 68,420 |
| Due from other funds | 3,318 | 3,318 |
| | <u>3,925,818</u> | <u>3,551,089</u> |
| Total Assets | <u>\$ 4,471,572</u> | <u>\$ 4,466,887</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accrued liabilities | \$ 1,719 | \$ 7,491 |
| Due to State and Federal governments | 34,745 | 34,745 |
| Due to other funds | 233,003 | 141,721 |
| Deferred revenues | 3,861,138 | 3,474,051 |
| Total Liabilities | 4,130,605 | 3,658,008 |
| Fund Balance - Assigned | <u>340,967</u> | <u>808,879</u> |
| Total Liabilities and Fund Balance | <u>\$ 4,471,572</u> | <u>\$ 4,466,887</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, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|-------------------|-------------------|
| Revenues: | | |
| Departmental income | \$ 621,913 | \$ 734,962 |
| Use of money and property | 6,208 | 1,327 |
| Federal aid | <u>1,123,053</u> | <u>492,774</u> |
| Total Revenues | 1,751,174 | 1,229,063 |
| Expenditures - Current - | | |
| Home and community services | <u>2,066,293</u> | <u>1,336,850</u> |
| Deficiency of Revenues | | |
| Over Expenditures | <u>(315,119)</u> | <u>(107,787)</u> |
| Other Financing Sources (Uses): | | |
| Loans issued | 54,454 | 750,000 |
| Transfers out | <u>(207,247)</u> | <u>(267,978)</u> |
| Total Other Financing Sources (Uses) | <u>(152,793)</u> | <u>482,022</u> |
| Net Change in Fund Balance | (467,912) | 374,235 |
| Fund Balance - Beginning of Year | <u>808,879</u> | <u>434,644</u> |
| Fund Balance - End of Year | <u>\$ 340,967</u> | <u>\$ 808,879</u> |

CITY OF MIDDLETOWN, NEW YORK

WATER FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| <u>ASSETS</u> | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Cash: | | |
| Demand deposits | \$ 812,200 | \$ 525,629 |
| Petty cash | 200 | 200 |
| | <u>812,400</u> | <u>525,829</u> |
| Receivables: | | |
| Accounts | 15,171 | 11,458 |
| Water rents, net of allowance for uncollectible amounts of \$305,406 in 2011 and \$164,414 in 2010 | 2,625,841 | 2,268,363 |
| Due from other funds | 800,768 | 954,104 |
| | <u>3,441,780</u> | <u>3,233,925</u> |
| Prepaid Expenditures | <u>63,501</u> | <u>24,667</u> |
| Total Assets | <u>\$ 4,317,681</u> | <u>\$ 3,784,421</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 146,299 | \$ 53,369 |
| Accrued liabilities | 71,844 | 53,906 |
| Due to other funds | 1,939,284 | 975,999 |
| Total Liabilities | <u>2,157,427</u> | <u>1,083,274</u> |
| Fund Balance: | | |
| Nonspendable | 63,501 | 24,667 |
| Restricted | 150,000 | 150,000 |
| Assigned | 1,946,753 | 2,526,480 |
| Total Fund Balance | <u>2,160,254</u> | <u>2,701,147</u> |
| Total Liabilities and Fund Balance | <u>\$ 4,317,681</u> | <u>\$ 3,784,421</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, 2011 AND 2010

| | 2011 | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|------------------|------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| Departmental income | \$ 5,904,848 | \$ 5,904,848 | \$ 5,773,911 | \$ (130,937) |
| Use of money and property | 3,500 | 3,500 | 1,908 | (1,592) |
| Licenses and permits | 7,000 | 7,000 | 10,360 | 3,360 |
| Sale of property and compensation for loss | - | - | 2,501 | 2,501 |
| Miscellaneous | 2,500 | 2,500 | 4,600 | 2,100 |
| Total Revenues | 5,917,848 | 5,917,848 | 5,793,280 | (124,568) |
| Expenditures: | | | | |
| Current: | | | | |
| General government support | 245,824 | 352,855 | 340,215 | 12,640 |
| Home and community services | 2,004,715 | 2,126,541 | 2,065,003 | 61,538 |
| Employee benefits | 877,209 | 778,966 | 701,723 | 77,243 |
| Debt service - Interest | 41,000 | 41,000 | 32,086 | 8,914 |
| Total Expenditures | 3,168,748 | 3,299,362 | 3,139,027 | 160,335 |
| Excess of Revenues Over Expenditures | 2,749,100 | 2,618,486 | 2,654,253 | 35,767 |
| Other Financing Uses - Transfers out | (2,749,100) | (3,238,844) | (3,195,146) | 43,698 |
| Net Change in Fund Balance | - | (620,358) | (540,893) | 79,465 |
| Fund Balance - Beginning of Year | - | 620,358 | 2,701,147 | 2,080,789 |
| Fund Balance - End of Year | \$ - | \$ - | \$ 2,160,254 | \$ 2,160,254 |

2010

| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------|--------------------|---------------------|---|
| \$ 5,181,367 | \$ 5,181,367 | \$ 5,570,047 | \$ 388,680 |
| 3,365 | 3,365 | 3,017 | (348) |
| 10,000 | 10,000 | 12,140 | 2,140 |
| - | - | 1,495 | 1,495 |
| 2,500 | 2,500 | 4,963 | 2,463 |
| <u>5,197,232</u> | <u>5,197,232</u> | <u>5,591,662</u> | <u>394,430</u> |
| 311,088 | 310,094 | 269,049 | 41,045 |
| 1,823,201 | 1,900,054 | 1,800,238 | 99,816 |
| 912,758 | 912,699 | 741,791 | 170,908 |
| 50,000 | 50,000 | 6,447 | 43,553 |
| <u>3,097,047</u> | <u>3,172,847</u> | <u>2,817,525</u> | <u>355,322</u> |
| 2,100,185 | 2,024,385 | 2,774,137 | 749,752 |
| <u>(2,100,185)</u> | <u>(2,152,098)</u> | <u>(2,130,983)</u> | <u>21,115</u> |
| - | (127,713) | 643,154 | 770,867 |
| - | 127,713 | 2,057,993 | 1,930,280 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,701,147</u> | <u>\$ 2,701,147</u> |

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CITY OF MIDDLETOWN, NEW YORK

SEWER FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash: | | |
| Demand deposits | \$ 1,015,405 | \$ 592,055 |
| Petty cash | 200 | 200 |
| | <u>1,015,605</u> | <u>592,255</u> |
| Receivables: | | |
| Sewer rents, net of allowance for uncollectible amounts of \$273,913 in 2011 and \$162,672 in 2010 | 2,264,023 | 1,967,504 |
| Due from other funds | 44,993 | 537,344 |
| | <u>2,309,016</u> | <u>2,504,848</u> |
| Prepaid Expenditures | <u>55,888</u> | <u>20,018</u> |
| Total Assets | <u>\$ 3,380,509</u> | <u>\$ 3,117,121</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 121,955 | \$ 120,683 |
| Accrued liabilities | 32,477 | 34,270 |
| Due to other funds | 529,032 | 860,238 |
| Total Liabilities | <u>683,464</u> | <u>1,015,191</u> |
| Fund Balance: | | |
| Nonspendable | 55,888 | 20,018 |
| Assigned | 2,641,157 | 2,081,912 |
| Total Fund Balance | <u>2,697,045</u> | <u>2,101,930</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,380,509</u> | <u>\$ 3,117,121</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, 2011 AND 2010

| | 2011 | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|---------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| Departmental income | \$ 5,362,602 | \$ 5,362,602 | \$ 5,229,180 | \$ (133,422) |
| Use of money and property | 2,500 | 2,500 | 1,474 | (1,026) |
| Licenses and permits | 500 | 500 | - | (500) |
| Miscellaneous | 1,000 | 1,000 | 846 | (154) |
| Total Revenues | <u>5,366,602</u> | <u>5,366,602</u> | <u>5,231,500</u> | <u>(135,102)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government support | 112,080 | 140,883 | 123,490 | 17,393 |
| Home and community services | 2,024,614 | 2,168,284 | 2,000,469 | 167,815 |
| Employee benefits | 752,304 | 722,831 | 558,683 | 164,148 |
| Debt service - Interest | 167,000 | 102,000 | 93,156 | 8,844 |
| Total Expenditures | <u>3,055,998</u> | <u>3,133,998</u> | <u>2,775,798</u> | <u>358,200</u> |
| Excess of Revenues Over Expenditures | 2,310,604 | 2,232,604 | 2,455,702 | 223,098 |
| Other Financing Uses - Transfers out | <u>(2,310,604)</u> | <u>(2,375,604)</u> | <u>(1,860,587)</u> | <u>515,017</u> |
| Net Change in Fund Balance | - | (143,000) | 595,115 | 738,115 |
| Fund Balance - Beginning of Year | <u>-</u> | <u>143,000</u> | <u>2,101,930</u> | <u>1,958,930</u> |
| Fund Balance - End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,697,045</u> | <u>\$ 2,697,045</u> |

2010

| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------|--------------------|---------------------|---|
| \$ 4,595,403 | \$ 4,595,403 | \$ 4,932,212 | \$ 336,809 |
| 2,500 | 2,500 | 2,106 | (394) |
| 500 | 500 | 685 | 185 |
| 1,000 | 1,000 | 1,050 | 50 |
| <u>4,599,403</u> | <u>4,599,403</u> | <u>4,936,053</u> | <u>336,650</u> |
| 219,077 | 241,970 | 142,265 | 99,705 |
| 2,171,633 | 2,174,952 | 1,980,857 | 194,095 |
| 798,160 | 798,160 | 579,902 | 218,258 |
| 35,000 | 168,463 | 103,463 | 65,000 |
| <u>3,223,870</u> | <u>3,383,545</u> | <u>2,806,487</u> | <u>577,058</u> |
| 1,375,533 | 1,215,858 | 2,129,566 | 913,708 |
| <u>(1,375,533)</u> | <u>(1,242,070)</u> | <u>(957,401)</u> | <u>284,669</u> |
| - | (26,212) | 1,172,165 | 1,198,377 |
| - | 26,212 | 929,765 | 903,553 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,101,930</u> | <u>\$ 2,101,930</u> |

CITY OF MIDDLETOWN, NEW YORK

CAPITAL PROJECTS FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash - Demand deposits | \$ 2,770,478 | \$ 3,856,202 |
| Restricted Investments | <u>2,639,114</u> | <u>6,036,370</u> |
| Receivables: | | |
| State and Federal aid | 89,444 | 471,117 |
| Due from other governments | 61,673 | 36,980 |
| Due from other funds | <u>1,159,015</u> | <u>1,536,408</u> |
| | <u>1,310,132</u> | <u>2,045,290</u> |
| Total Assets | <u>\$ 6,719,724</u> | <u>\$ 11,937,862</u> |
| <u>LIABILITIES AND FUND DEFICIT</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 570,093 | \$ 1,124,661 |
| Retained percentages | 279,978 | 1,544,909 |
| Due to other funds | 1,018,171 | 990,243 |
| Deferred revenues | 251,774 | 262,539 |
| Loans payable | 12,967,105 | 15,896,487 |
| Bond anticipation notes payable | <u>11,170,769</u> | <u>10,695,769</u> |
| Total Liabilities | 26,257,890 | 30,514,608 |
| Fund Deficit - Unassigned | <u>(19,538,166)</u> | <u>(18,576,746)</u> |
| Total Liabilities and Fund Deficit | <u>\$ 6,719,724</u> | <u>\$ 11,937,862</u> |

CITY OF MIDDLETOWN, NEW YORK

CAPITAL PROJECTS FUND
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE
 YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|------------------------|------------------------|
| Revenues: | | |
| State aid | \$ 433,942 | \$ 646,985 |
| Federal aid | 2,398,482 | - |
| Miscellaneous | <u>24,693</u> | <u>20,825</u> |
| Total Revenues | 2,857,117 | 667,810 |
| Expenditures - Capital outlay | <u>4,968,281</u> | <u>17,388,828</u> |
| Deficiency of Revenues Over Expenditures | (2,111,164) | (16,721,018) |
| Other Financing Sources - | | |
| Transfers in | <u>1,149,744</u> | <u>65,000</u> |
| Net Change in Fund Balance | (961,420) | (16,656,018) |
| Fund Deficit - Beginning of Year | <u>(18,576,746)</u> | <u>(1,920,728)</u> |
| Fund Deficit - End of Year | <u>\$ (19,538,166)</u> | <u>\$ (18,576,746)</u> |

CITY OF MIDDLETOWN, NEW YORK

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2011
 (With Comparative Totals for 2010)

| | <u>Golden Area</u> | <u>Special Purpose</u> | <u>Debt Service</u> |
|---|------------------------|----------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Cash - Demand deposits | \$ 9,521 | \$ 512,769 | \$ 2,525,857 |
| Receivables: | | | |
| Due from other governments | 8,284 | - | - |
| Due from other funds | 7,800 | - | 970,354 |
| | <u>16,084</u> | <u>-</u> | <u>970,354</u> |
| Total Assets | <u>\$ 25,605</u> | <u>\$ 512,769</u> | <u>\$ 3,496,211</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 338 | \$ - | \$ - |
| Accrued liabilities | 2,941 | - | - |
| Accrued interest payable | - | - | 14,357 |
| Due to other funds | 28,746 | 456,183 | 730,313 |
| | <u>32,025</u> | <u>456,183</u> | <u>744,670</u> |
| Total Liabilities | <u>32,025</u> | <u>456,183</u> | <u>744,670</u> |
| Fund Balances (Deficits): | | | |
| Restricted | - | 56,586 | 2,751,541 |
| Unassigned | (6,420) | - | - |
| | <u>(6,420)</u> | <u>56,586</u> | <u>2,751,541</u> |
| Total Fund Balances (Deficits) | <u>(6,420)</u> | <u>56,586</u> | <u>2,751,541</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 25,605</u> | <u>\$ 512,769</u> | <u>\$ 3,496,211</u> |

Total Non-Major
Governmental Funds

| 2011 | 2010 |
|--------------|--------------|
| \$ 3,048,147 | \$ 2,552,926 |
| 8,284 | 4,554 |
| 978,154 | 1,833,139 |
| 986,438 | 1,837,693 |
| \$ 4,034,585 | \$ 4,390,619 |
| | |
| \$ 338 | \$ 2 |
| 2,941 | 2,536 |
| 14,357 | - |
| 1,215,242 | 1,823,756 |
| 1,232,878 | 1,826,294 |
| | |
| 2,808,127 | 2,568,076 |
| (6,420) | (3,751) |
| 2,801,707 | 2,564,325 |
| \$ 4,034,585 | \$ 4,390,619 |

CITY OF MIDDLETOWN, NEW YORK

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES
 YEAR ENDED DECEMBER 31, 2011
 (With Comparative Totals for 2010)

| | Golden Area | Special Purpose | Debt Service |
|--|-------------------|--------------------|---------------------|
| Revenues: | | | |
| Departmental income | \$ 101,059 | \$ - | \$ - |
| Use of money and property | 6 | 286 | 5,218 |
| Federal aid | 15,098 | - | - |
| Miscellaneous | - | 36,920 | 216,200 |
| Total Revenues | <u>116,163</u> | <u>37,206</u> | <u>221,418</u> |
| Expenditures: | | | |
| Current: | | | |
| Public safety | - | 18,575 | - |
| Culture and recreation | 118,832 | - | - |
| Debt service: | | | |
| Principal | - | - | 2,354,000 |
| Interest | - | - | 1,273,788 |
| Refunding bond issuance cost | - | - | 125,734 |
| Total Expenditures | <u>118,832</u> | <u>18,575</u> | <u>3,753,522</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(2,669)</u> | <u>18,631</u> | <u>(3,532,104)</u> |
| Other Financing Sources (Uses): | | | |
| Refunding bonds issued | - | - | 5,025,000 |
| Payments to refunded bond escrow agent | - | - | (5,030,779) |
| Premium on bonds issued | - | - | 131,513 |
| Transfers in | - | - | 3,627,790 |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>3,753,524</u> |
| Net Change in Fund Balances | (2,669) | 18,631 | 221,420 |
| Fund Balances (Deficits) - Beginning of Year | <u>(3,751)</u> | <u>37,955</u> | <u>2,530,121</u> |
| Fund Balances (Deficits) - End of Year | <u>\$ (6,420)</u> | <u>\$ 56,586</u> | <u>\$ 2,751,541</u> |

Total Non-Major
Governmental Funds

| | 2011 | | 2010 |
|----|-------------|----|-------------|
| \$ | 101,059 | \$ | 68,053 |
| | 5,510 | | 11,785 |
| | 15,098 | | 20,857 |
| | 253,120 | | 193,062 |
| | 374,787 | | 293,757 |
| | 18,575 | | 9,068 |
| | 118,832 | | 117,232 |
| | 2,354,000 | | 2,495,143 |
| | 1,273,788 | | 1,456,862 |
| | 125,734 | | - |
| | 3,890,929 | | 4,078,305 |
| | (3,516,142) | | (3,784,548) |
| | 5,025,000 | | - |
| | (5,030,779) | | - |
| | 131,513 | | - |
| | 3,627,790 | | 3,952,004 |
| | 3,753,524 | | 3,952,004 |
| | 237,382 | | 167,456 |
| | 2,564,325 | | 2,396,869 |
| \$ | 2,801,707 | \$ | 2,564,325 |

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CITY OF MIDDLETOWN, NEW YORK

GOLDEN AREA FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash - Demand deposits | \$ 9,521 | \$ 2,376 |
| Receivables: | | |
| Due from other governments | 8,284 | 4,554 |
| Due from other funds | <u>7,800</u> | <u>7,750</u> |
| | <u>16,084</u> | <u>12,304</u> |
| Total Assets | <u>\$ 25,605</u> | <u>\$ 14,680</u> |
| <u>LIABILITIES AND FUND DEFICIT</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 338 | \$ 2 |
| Accrued liabilities | 2,941 | 2,536 |
| Due to other funds | <u>28,746</u> | <u>15,893</u> |
| Total Liabilities | 32,025 | 18,431 |
| Fund Deficit - Unassigned | <u>(6,420)</u> | <u>(3,751)</u> |
| Total Liabilities and Fund Deficit | <u>\$ 25,605</u> | <u>\$ 14,680</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, 2011 AND 2010

| | 2011 | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|-------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| Departmental income | \$ 101,968 | \$ 101,968 | \$ 101,059 | \$ (909) |
| Use of money and property | - | - | 6 | 6 |
| Federal aid | 20,858 | 20,858 | 15,098 | (5,760) |
| Total Revenues | 122,826 | 122,826 | 116,163 | (6,663) |
| Expenditures - Current - Culture and recreation | 122,826 | 122,826 | 118,832 | 3,994 |
| Deficiency of Revenues Over Expenditures | - | - | (2,669) | (2,669) |
| Fund Balance (Deficit) - Beginning of Year | - | - | (3,751) | (3,751) |
| Fund Deficit - End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (6,420)</u> | <u>\$ (6,420)</u> |

2010

| <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|----------------------------|-------------------------|-------------------|---|
| \$ 130,598 | \$ 130,598 | \$ 68,053 | \$ (62,545) |
| - | - | 10 | 10 |
| <u>28,624</u> | <u>28,624</u> | <u>20,857</u> | <u>(7,767)</u> |
| 159,222 | 159,222 | 88,920 | (70,302) |
| <u>159,222</u> | <u>159,222</u> | <u>117,232</u> | <u>41,990</u> |
| - | - | (28,312) | (28,312) |
| <u>-</u> | <u>-</u> | <u>24,561</u> | <u>24,561</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (3,751)</u> | <u>\$ (3,751)</u> |

CITY OF MIDDLETOWN, NEW YORK

SPECIAL PURPOSE FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-------------------|-------------------|
| <u>ASSETS</u> | | |
| Cash - Demand deposits | <u>\$ 512,769</u> | <u>\$ 540,505</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities - | | |
| Due to other funds | \$ 456,183 | \$ 502,550 |
| Fund Balance - Restricted | <u>56,586</u> | <u>37,955</u> |
| Total Liabilities and Fund Balance | <u>\$ 512,769</u> | <u>\$ 540,505</u> |

CITY OF MIDDLETOWN, NEW YORK

SPECIAL PURPOSE FUND
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|-------------------------|-------------------------|
| Revenues: | | |
| Use of money and property | \$ 286 | \$ 140 |
| Miscellaneous | <u>36,920</u> | <u>10,366</u> |
| Total Revenues | 37,206 | 10,506 |
| Expenditures - | | |
| Current - | | |
| Public safety | <u>18,575</u> | <u>9,068</u> |
| Excess of Revenues Over Expenditures | 18,631 | 1,438 |
| Fund Balance - Beginning of Year | <u>37,955</u> | <u>36,517</u> |
| Fund Balance - End of Year | <u><u>\$ 56,586</u></u> | <u><u>\$ 37,955</u></u> |

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CITY OF MIDDLETOWN, NEW YORK

DEBT SERVICE FUND
 COMPARATIVE BALANCE SHEET
 DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash - Demand deposits | \$ 2,525,857 | \$ 2,010,045 |
| Due from Other Funds | <u>970,354</u> | <u>1,825,389</u> |
| Total Assets | <u>\$ 3,496,211</u> | <u>\$ 3,835,434</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accrued interest payable | \$ 14,357 | \$ - |
| Due to other funds | <u>730,313</u> | <u>1,305,313</u> |
| Total Liabilities | 744,670 | 1,305,313 |
| Fund Balance - Restricted | <u>2,751,541</u> | <u>2,530,121</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,496,211</u> | <u>\$ 3,835,434</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, 2011 AND 2010

| | 2011 | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| Use of money and property | \$ - | \$ - | \$ 5,218 | \$ 5,218 |
| Miscellaneous | - | - | 216,200 | 216,200 |
| Total Revenues | - | - | 221,418 | 221,418 |
| Expenditures - Debt service: | | | | |
| Principal: | | | | |
| Bonds | 3,231,010 | 3,231,010 | 2,220,000 | 1,011,010 |
| Loans | 134,000 | 134,000 | 134,000 | - |
| | 3,365,010 | 3,365,010 | 2,354,000 | 1,011,010 |
| Interest: | | | | |
| Bonds | 1,329,592 | 1,329,592 | 1,200,541 | 129,051 |
| Loans | 73,247 | 73,247 | 73,247 | - |
| | 1,402,839 | 1,402,839 | 1,273,788 | 129,051 |
| Refunding bond issuance cost | - | 125,734 | 125,734 | - |
| Total Expenditures | 4,767,849 | 4,893,583 | 3,753,522 | 1,140,061 |
| Deficiency of Revenues Over Expenditures | (4,767,849) | (4,893,583) | (3,532,104) | 1,361,479 |
| Other Financing Sources (Uses): | | | | |
| Refunding bonds issued | - | 5,025,000 | 5,025,000 | - |
| Payments to refunded bond escrow agent | - | (5,030,779) | (5,030,779) | - |
| Premium on bonds issued | - | 131,513 | 131,513 | - |
| Transfers in | 4,767,849 | 4,767,849 | 3,627,790 | (1,140,059) |
| Total Other Financing Sources | 4,767,849 | 4,893,583 | 3,753,524 | (1,140,059) |
| Net Change in Fund Balance | - | - | 221,420 | 221,420 |
| Fund Balance - Beginning of Year | - | - | 2,530,121 | 2,530,121 |
| Fund Balance - End of Year | \$ - | \$ - | \$ 2,751,541 | \$ 2,751,541 |

2010

| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------|-----------------|--------------|---|
| \$ - | \$ - | \$ 11,635 | \$ 11,635 |
| - | - | 182,696 | 182,696 |
| - | - | 194,331 | 194,331 |
| 2,391,143 | 2,391,143 | 2,301,143 | 90,000 |
| 194,000 | 194,000 | 194,000 | - |
| 2,585,143 | 2,585,143 | 2,495,143 | 90,000 |
| 1,796,738 | 1,796,738 | 1,382,884 | 413,854 |
| 73,978 | 73,978 | 73,978 | - |
| 1,870,716 | 1,870,716 | 1,456,862 | 413,854 |
| - | - | - | - |
| 4,455,859 | 4,455,859 | 3,952,005 | 503,854 |
| (4,455,859) | (4,455,859) | (3,757,674) | 698,185 |
| - | - | - | - |
| - | - | - | - |
| 4,455,859 | 4,455,859 | 3,952,004 | (503,855) |
| 4,455,859 | 4,455,859 | 3,952,004 | (503,855) |
| - | - | 194,330 | 194,330 |
| - | - | 2,335,791 | 2,335,791 |
| \$ - | \$ - | \$ 2,530,121 | \$ 2,530,121 |

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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 governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Middletown, New York ("City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 26, 2012. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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'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 in a separate letter.

This report is intended solely for the information and use of the Mayor, 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, LLP
Harrison, New York
July 26, 2012

**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 City of Middletown New York's ("City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City'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's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City 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'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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information of the Mayor, 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, LLP

O'Connor Davies, LLP
Harrison, New York
July 26, 2012

CITY OF MIDDLETOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2011

| <u>Federal Grantor</u> <u>Program Title</u> | <u>Federal</u> <u>CFDA</u> <u>Number (1)</u> | <u>Non</u> <u>ARRA (2)</u> | <u>ARRA (2)</u> | <u>Federal</u> <u>Program</u> <u>Expenditures</u> |
|---|--|-------------------------------|-----------------|---|
| <u>U.S. Department of Housing and</u> <u>Urban Development</u> | | | | |
| Direct Programs: | | | | |
| Community Development Block Grants/ State's Program | 14.228 | \$ 1,359,545 | \$ | \$ 1,359,545 |
| Block Grants - Brownfields Economic Development Initiative | 14.246 | 366,717 | | 366,717 |
| Block Grants - Entitlement | 14.253 | | 18,730 | 18,730 |
| Total U.S. Department of Housing and Urban Development | | | | 1,744,992 |
| <u>U.S. Department of Justice</u> | | | | |
| Direct Programs: | | | | |
| Edward Byrne Memorial Justice Assistance Grant | 16.738 | 12,100 | | 12,100 |
| Edward Byrne Memorial Justice Assistance Grant - ARRA | 16.804 | | 50,140 | 50,140 |
| Indirect Programs - Passed through New York State Department of Justice: | | | | 62,240 |
| State and Local Law Enforcement Assistance | 16.580 | 24,997 | | 24,997 |
| Community Policing | 16.710 | 65,000 | | 65,000 |
| Total U.S. Department of Justice | | | | 152,237 |
| <u>U.S Environmental Protection</u> <u>Agency</u> | | | | |
| Direct Programs - | | | | |
| Formula Grants Clean Water Act (ARRA) | 66.458 | | 2,369,382 | 2,369,382 |
| <u>U.S. Department of Energy</u> | | | | |
| Direct Program - | | | | |
| Energy Efficiency and Conservation Block Grant Program | 81.128 | | 93,823 | 93,823 |
| <u>U.S. Department of Health and</u> <u>Human Services</u> | | | | |
| Direct Programs: | | | | |
| Drug Free Communities Substance Abuse and Mental Health Services | 93.243 | 58,680 | | 58,680 |
| Support Mentoring Program | 93.276 | 108,723 | | 108,723 |
| Total U.S. Department of Health and Human Services | | | | 167,403 |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Direct Program - Assistance to Firefighters Grant | | | | |
| | 97.044 | 15,098 | | 15,098 |
| Total | | | | \$ 4,542,935 |

(1) Catalog of Federal Domestic Assistance Number

(2) American Recovery and Reinvestment Act

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, 2011. 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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

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:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 14.246 | Block Grant – Brownfields Economic Development Initiative |
| 66.458 | ARRA – Clean Water Formula Grant |
| 93.276 | Support Mentoring Program |

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, 2011

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None